

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

**MUNICIPIO DE SALINAS  
AUDITORÍA 2014-2015  
30 DE JUNIO DE 2015**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS**

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**BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED  
SUPPLEMENTARY INFORMATION**

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**Year Ended June 30, 2015**

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Municipality of Salinas  
P.O. Box 1149 Salinas, P.R. 00751-1149

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2015

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**NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor,  
Members of the Municipal Legislature  
and People of the Municipality of Salinas  
Salinas, Puerto Rico

### Report on the Financial Statements

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Salinas of the Commonwealth of Puerto Rico (the Municipality), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Principles Generally Accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards Generally Accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## INDEPENDENT AUDITOR'S REPORT

(Continued)

### Basis for Adverse Opinion on Governmental Activities

- A. As described in Notes 1 and 8 to the financial statements, the Municipality did not have a complete, updated and accurate accounting records of capital assets principally infrastructure assets. Accounting Principles Generally Accepted in the United States of America require that capital assets additions be capitalized and depreciated over their estimated useful lives, which would increase the assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position and expenses of the governmental activities is not reasonably determinable.
- B. As discussed in Note 18 to the financial statements, the Municipality did not comply with the requirements established by Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Cost*, issued by the Governmental Accounting Standards Boards and the regulation set forth by the U.S. Environmental Protection Agency. At June 30, 2015, the accompanying statement of net position does not include the required liability for closures and post-closure care costs of the Municipality's solid waste landfill. In addition, the expenses and result of operations reported in the statement of activities are understated and overstated, respectively, for amounts that could not be determined for the fiscal year ended June 30, 2015.
- C. As discussed in Notes 1 and 14 to the basic financial statements, the Municipality has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. Accordingly,
  1. The Municipality has not been able to determine and account for its proportionate share of net pension obligation, deferred inflow of resources and deferred outflow of resources related to pension costs and,
  2. The Municipality has not recognized the effect of current period changes in net pension obligation, deferred outflow of resources and deferred inflow of resources as these relate to pension costs.

Accounting Principles Generally Accepted in the United States of America require that pension related liability, deferred outflow of resources, deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 68, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, increase the deficit, and change the pension expenses of the governmental activities. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, deficit, and expenses of the governmental activities has not been determined.

The accompanying notes to the basic financial statements do not disclose the pension cost information required by Statement No. 68. In our opinion, disclosure of this information is required by Accounting Principles Generally Accepted in the United States of America.

### Adverse Opinion

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on Governmental Activities" paragraphs, the financial statements referred to previously do not present fairly the financial position of the governmental activities of the Municipality of Salinas of the Commonwealth of Puerto Rico, as of June 30, 2015, or the changes in financial position thereof for the year then ended.

## INDEPENDENT AUDITOR'S REPORT

(Continued)

### Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of Salinas of the Commonwealth of Puerto Rico, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with Accounting Principles Generally Accepted in the United States of America.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2016 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.

### Other Matters

#### *Required Supplementary Information Omitted*

The Municipality has omitted the Schedule of the Municipality's Proportionate Share of the Net Pension Liability, and the Schedule of Municipality's Contributions to the Employees' Pension Plan, information that Accounting Principles Generally Accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Boards who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Schedule of the General Fund on pages 5 through 13 and 54 through 55, respectively, 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 them 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 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.

## INDEPENDENT AUDITOR'S REPORT

(Continued)

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management, were derived from, and relate directly to the underlying accounting and others 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, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with Auditing Standards Generally Accepted in the United States of America. In our opinion, the information is fairly in all material respects in relation to the financial statements as a whole.

*Nieves Velazquez & Co., P.S.C.*

**NIEVES VELAZQUEZ & CO., P.S.C.**

San Juan, Puerto Rico

March 4, 2016

Stamp No. 02710472 of the Puerto Rico Society of Certified Public Accountants has been affixed to the original of this report.



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended June 30, 2015**

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This discussion and analysis of the Municipality of Salinas (Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2015. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2014. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

**FINANCIAL HIGHLIGHTS**

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2015 deserve special mention:

1. Total assets of the Municipality amounted to \$22,859,422 which represents a decrease of 3% compared to prior fiscal year.
2. At the end of fiscal year 2015, total liabilities amounted to \$29,707,643. Out of said amount, \$25,083,391 corresponds to long-term liabilities, of which \$16,695,000 represents the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which were paid from self-generated revenues.
3. Total net position of the Municipality amounted to \$(6,848,221) which represents an increase of 1% compared to prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$3,777,787 derived from the following sources: \$268,379 charges for services; \$2,444,711 from operating grants and contributions; \$1,064,697 from capital grants and contributions obtained from other sources, and \$13,451,560 from general revenues available.
5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$17,250,814.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

MANAGEMENT DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2015

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**FINANCIAL HIGHLIGHTS (CONTINUED)**

6. As reflected in the Statement of Activities, the current fiscal year operations contributed to decrease in the net position figure of \$(21,467).
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$1,825,729.
8. As of the end of the current fiscal year, the Municipality's General Fund deficit amounted to \$(2,374,076), compared to a fund deficit of \$(1,802,022) in the prior fiscal year.
9. The actual General Fund budgetary activities resulted in negative balance of \$(232,692).

**FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION**

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2015. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years' performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

**FINANCIAL STATEMENTS COMPONENTS**

The basic financial statements consist of the government-wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Position reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net position. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net position figure either through additional borrowings or through internally generated funds. This in turn will benefit the welfare of the **Municipality of Salina's** constituents.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

MANAGEMENT DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2015

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**FINANCIAL STATEMENTS COMPONENTS (CONTINUED)**

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net position at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

A brief review of the Statements of Activities of the Municipality at June 30, 2015, shows total expenses incurred to afford the cost of all functions and programs amounted to \$17,250,814. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$3,777,787 was derived from the following sources: \$268,379 charges for services; \$2,444,711 from operating grants and contributions; and \$1,064,697 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$13,451,560. When such figure is added to the \$3,777,787 previously mentioned, total revenues available for the financing of activities amounted to \$17,229,347. There was an excess of expenses over revenues in the amount of \$(21,467) which contributed to decrease in the figure of net position attained at the end of the fiscal year.

The Fund Financial Statements are another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered through this Statement is limited to the Municipality's most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting basis known as modified-accrual, which measures cash and all other financial assets that can be readily converted into cash.

The fund statement approach gives the user a short-term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

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 be better understanding the long-term impact of the Municipality's near term financial decisions. The Government 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the Fiscal Year Ended June 30, 2015

**INFRASTRUCTURE ASSETS**

Historically, a significant group of infrastructure assets (such as roads, bridges, traffic signals, underground pipes not associated with utilities, etc.) 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 of Net Position.

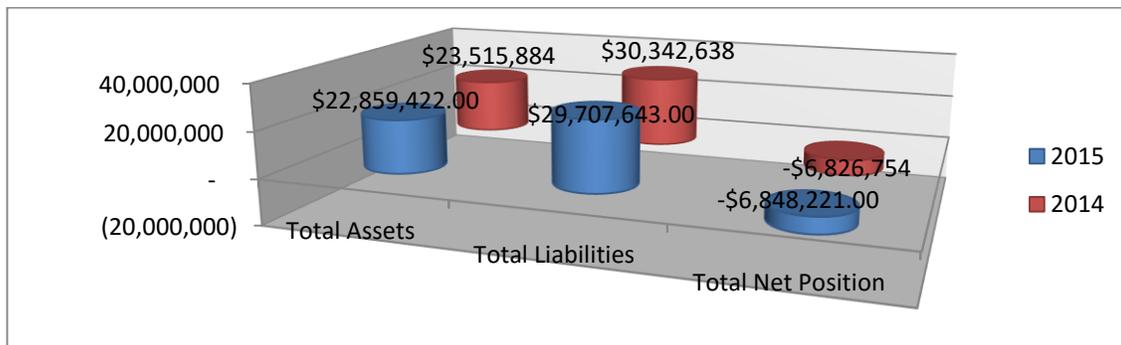
According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management 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.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Position**

The Statement of Net Position serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Salinas**, the net position amounted to \$(6,848,221) at the end of 2015, compared to \$(6,826,754) at the end of the previous year is showed in the following condensed Statement of Net Position of the Primary Government.

Condensed Statement of Net Position	2015	2014	Change	%
Current and other assets	\$ 6,632,838	\$ 6,625,749	\$ 7,089	1
Capital assets	16,226,584	16,890,135	(663,551)	-4
<b>Total assets</b>	<b>22,859,422</b>	<b>23,515,884</b>	<b>(656,462)</b>	<b>-3</b>
Current and other liabilities	4,624,252	2,563,347	2,060,905	80
Long-term liabilities	25,083,391	27,779,291	(2,695,900)	-10
<b>Total liabilities</b>	<b>29,707,643</b>	<b>30,342,638</b>	<b>(634,995)</b>	<b>-2</b>
Net investment in capital assets	14,116,584	14,640,135	(523,551)	-4
Restricted	4,249,025	4,879,307	(630,282)	-13
Unrestricted (deficit)	(25,213,830)	(26,346,196)	1,132,366	-4
<b>Total net position</b>	<b>\$ (6,848,221)</b>	<b>\$ (6,826,754)</b>	<b>\$ (21,467)</b>	<b>1</b>



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the Fiscal Year Ended June 30, 2015

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

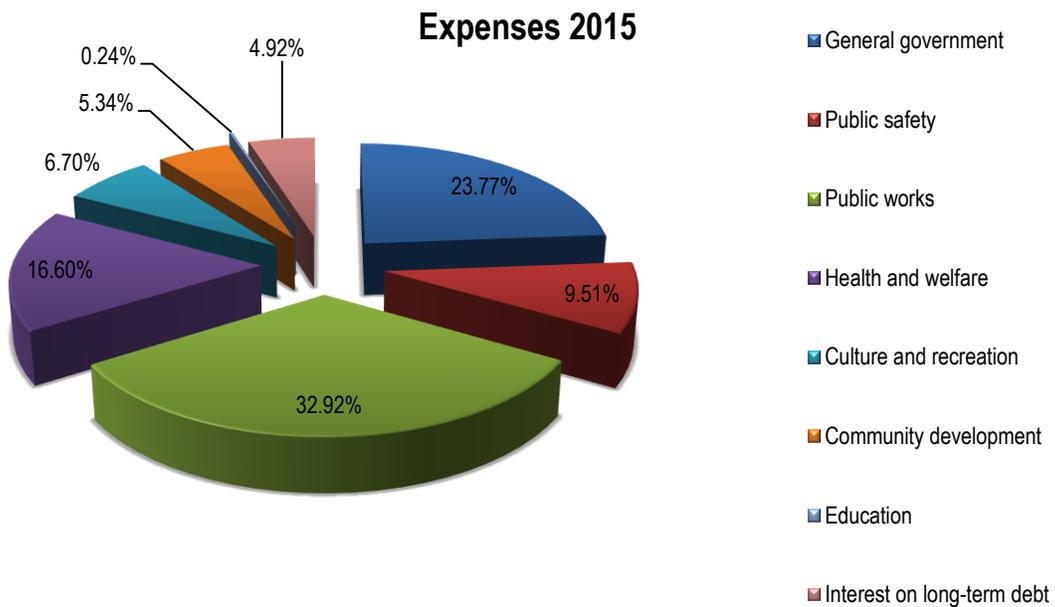
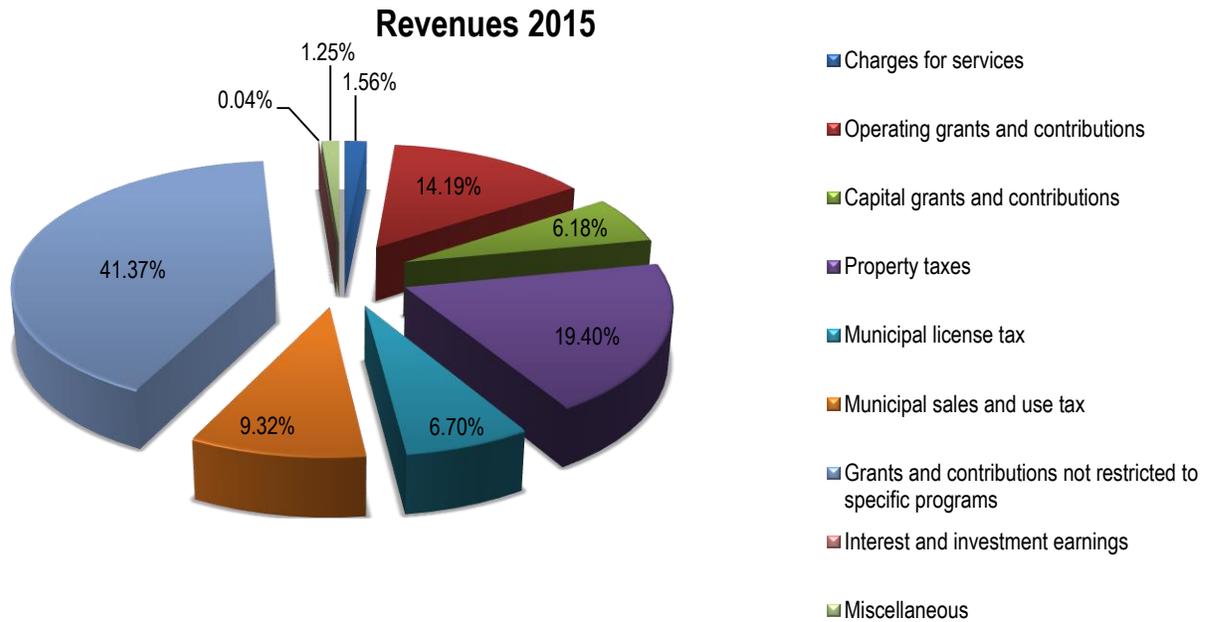
Approximately 35% of the Municipality's total revenue came from taxes, while 43% resulted from grants and contributions, including federal aid. Charges for Services provide 2% of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for public works and public safety, with 42%, and general government with 24%. As follows, a comparative analysis of governmental-wide data is presented. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

<u>Condensed Statements of Activities</u>	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>%</u>
Program revenues:				
Charges for services	\$ 268,379	\$ 242,880	\$ 25,499	10%
Operating grants and contributions	2,444,711	1,879,503	565,208	30%
Capital grants and contributions	1,064,697	1,012,580	52,117	5%
General revenues:				
Property taxes	3,341,348	3,339,830	1,518	1%
Municipal license tax	1,154,463	1,429,148	(274,685)	-19%
Municipal sales and use tax	1,605,137	1,579,736	25,401	2%
Grants and contributions not restricted to specific programs	7,126,966	6,778,098	348,868	5%
Interest and investment earnings	8,447	29,201	(20,754)	-71%
Miscellaneous	215,199	788,074	(572,875)	-73%
Total revenues	<u>17,229,347</u>	<u>17,079,050</u>	<u>150,297</u>	1%
Expenses:				
General Government	\$ 4,099,709	\$ 3,922,624	177,085	5%
Public Safety	1,640,530	1,259,476	381,054	30%
Public Works	5,679,601	3,997,339	1,682,262	42%
Health and Welfare	2,862,785	2,378,589	484,196	20%
Culture and Recreation	1,156,311	684,346	471,965	69%
Community Development	920,754	1,072,867	(152,113)	-14%
Economic Development	-	64	(64)	-100%
Education	42,198	32,019	10,179	32%
Urban Development	-	1,365	(1,365)	-100%
Interest on Long-term Debt	848,926	841,118	7,808	1%
Total expenses	<u>17,250,814</u>	<u>14,189,807</u>	<u>3,061,007</u>	22%
Change in net position	(21,467)	2,889,243	(2,910,710)	-101%
Net position, beginning	(6,826,754)	(9,715,997)	2,889,243	-30%
Net position, end of year	<u>\$ (6,848,221)</u>	<u>\$ (6,826,754)</u>	<u>\$ (21,467)</u>	1%

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

MANAGEMENT DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2015

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended June 30, 2015**

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**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

**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, unassigned 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 \$1,825,729, a decrease of \$(1,202,336) in comparison with the prior year. The combined fund balances include restricted fund balance amounting to \$4,249,025. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for specific program purposes (\$504,712); 2) to pay for capital projects (\$1,737,990); 3) to pay debt services (\$1,957,103) and 4) to pay other operational expenditures (\$49,220).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2015, the general fund has an unassigned fund deficit of \$(2,423,296).

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Municipality Legislature revised the Municipality's budget in order to include decreases in revenues that were identified during the course of the fiscal year based on current developments that negative affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

The actual General Fund budgetary activities resulted in a negative balance of \$(232,692), caused mainly due to unexpected negative variances in expenditures.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2015, amounts to \$26,677,731, with an accumulated depreciation of \$(10,451,147) (including depreciation charges for the year that totaled \$(820,044), leaving a net book value of \$16,226,584. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. 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 Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes 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, 2015, the Municipality has \$427,424 of unexpended proceeds mainly from bonds and notes issuances that are restricted, committed and/or assigned to future construction activities.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended June 30, 2015**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

**Debt Administration**

The Commonwealth Legislature of Puerto Rico 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").

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.

As mentioned in previous paragraphs in the notes of the Municipality's financial statements attached hereto, during the earlier months of the present year 2015, the Commonwealth Legislature approved Acts Number 18 and 19. Through such legislation, the cash flow produced from collections by the municipalities of the sales and use taxes is completely restructured thru a creation of the Municipal Financial Corporations (known as COFIN in the Spanish anachronism) to provide additional liquidity to the Puerto Rico Government Development Bank's (GDB) weakened cash position. The new created affiliate to the GDB will receive those collections, and will assume the total indebtedness incurred by municipalities as of June 30, 2015. A portion estimated in .03% of total collections will be used for the payment of debt services requirement. In order to protect the municipality's cash flow, the GDB, on a monthly basis, will make advances to the municipalities included in the new arrangement, free of financing charges, equivalent to the monthly collections from the previous year. In the meantime, total liabilities incurred by de municipalities using the Municipal Redemption Fund will be refinanced and GDB will recover its borrowed cash.

It is anticipated that under the arrangement, the municipalities will recover the total 1% of uses and sales tax and will get the assurance of future sources of financing either from GDB, from the new created affiliate or private financing institutions. Furthermore, the former Municipal Development Funds and the Bond Redemption Funds will prevail under the new legislation. Its funding will be transferred from the .5% added to the Municipal Tax to be collected by the Secretary of the Treasury which will be first transfer to COFINA, which, upon compliance with its debt service obligation, will transfer .4% to each indicated municipal funds and .1% to a Municipal Improvement Fund, whose distribution to Municipalities will be determined by the Puerto Rico Legislative Assembly.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended June 30, 2015**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2015-2016.

**FINAL COMMENTS**

The Municipality is a governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

The Municipality's management is committed to a continued improvement in the confection of a budget that will response to the needs of the public and private sectors in accordance with its permissible revenues levels. It further contemplates to maintain or improve its current levels of Net Position as indicative of a strong financial position which has been identified as one of the main short and long-term objectives of the Municipality.

The new GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment to GASB Statement No. 27*, was effective for the fiscal year ended June 30, 2015. This Statement requires participants of cost-sharing defined benefit pension plans that are administered through trusts that comply with certain criteria to recognize in their financial statements their proportionate share of the collective net pension liability, net pension expense and deferred outflows/inflows of resources related to pensions. The Municipality's pension plan is administered by the Employees Retirement System Administration (ESR). The ESR has not issued its audited financial statements for the fiscal year ended June 30, 2014 (the plan's measurement date), and as a result, the Municipality of Salinas could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 68. Consequently, the Municipality's financial statements do not report or disclose the required information for its pension plan for the fiscal year 2014-15.

**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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

STATEMENT OF NET POSITION

June 30, 2015

	<b>Governmental Activities</b>
<b>Assets</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 1,815,887
Cash with fiscal agent	3,731,994
Accounts receivable:	
Sales and use taxes	79,672
Commonwealth Government	173,692
Due from:	
Commonwealth Government	805,392
Federal Government	26,201
<b>Total current assets</b>	<b>6,632,838</b>
<b>Noncurrent assets:</b>	
Capital assets, net of depreciation	16,226,584
<b>Total noncurrent assets</b>	<b>16,226,584</b>
<b>Total assets</b>	<b>\$ 22,859,422</b>
<b>Liabilities</b>	
<b>Current liabilities:</b>	
Accounts payable and accrued liabilities	962,831
Commonwealth Government	908,908
Unearned revenues:	
Municipal license tax	848,294
Matured interest due and payable	404,102
Current portion of long-term obligations	1,500,117
<b>Total current liabilities</b>	<b>4,624,252</b>
<b>Noncurrent liabilities (excluding current portion):</b>	
Bonds payable	16,100,000
Notes payable	595,000
Compensated absences	1,317,426
Law 42	895,590
Law 46	163,463
Claims and judgments	1,105,025
Christmas Bonus	132,499
Landfill	4,073,592
Due to other governmental entities	2,200,913
Less: Amount reported as current portion	(1,500,117)
<b>Total noncurrent liabilities</b>	<b>25,083,391</b>
<b>Total liabilities</b>	<b>29,707,643</b>
<b>Net Position</b>	
Invested in capital assets, net of related debt	14,116,584
Restricted for:	
Capital projects	1,737,990
Debt service	1,957,103
Federal and state funded programs	553,932
Unrestricted (deficit)	(25,213,830)
<b>Total net position</b>	<b>\$ (6,848,221)</b>

The accompanying notes to the basic financial statements are an integral parts of this statement.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

STATEMENT OF ACTIVITIES  
June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
General Government	\$ 4,099,709	\$ -	\$ 647,459	\$ -	\$ (3,452,250)
Public Safety	1,640,530	24,605	51,072	-	(1,564,853)
Public Works	5,679,601	141,498	986	1,064,697	(4,472,420)
Health and Welfare	2,862,785	1,963	662,234	-	(2,198,588)
Culture and Recreation	1,156,311	98,203	99,679	-	(958,429)
Community Development	920,754	2,110	983,281	-	64,637
Education	42,198	-	-	-	(42,198)
Interest on Long-term Debt	848,926	-	-	-	(848,926)
<b>Total Governmental Activities</b>	<b>\$ 17,250,814</b>	<b>\$ 268,379</b>	<b>\$ 2,444,711</b>	<b>\$ 1,064,697</b>	<b>\$ (13,473,027)</b>
General revenues:					
					3,341,348
					1,154,463
					1,605,137
					7,126,966
					8,447
					215,199
					<u>13,451,560</u>
					(21,467)
					(6,826,754)
					<u>\$ (6,848,221)</u>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
June 30, 2015

	<u>General Fund</u>	<u>Commonwealth Legislative Resolutions Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 1,160,019	\$ 570,742	\$ -	\$ 85,126	\$ 1,815,887
Cash with fiscal agent	49,220	-	3,177,772	505,002	3,731,994
Accounts receivable:					
Sales and use tax	79,672	-	-	-	79,672
Commonwealth Government	173,692	-	-	-	173,692
Due from:					
Commonwealth Government	30,771	666,188	108,433	-	805,392
Federal Government	-	-	-	26,201	26,201
Other funds	860,799	1,921,408	-	166,037	2,948,244
<b>Total assets</b>	<u>\$ 2,354,173</u>	<u>\$ 3,158,338</u>	<u>\$ 3,286,205</u>	<u>\$ 782,366</u>	<u>\$ 9,581,082</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances:</b>					
Accounts payable and accrued liabilities	\$ 852,830	\$ 82,016	\$ -	\$ 27,985	\$ 962,831
Due to:					
Commonwealth Government	908,908	-	-	-	908,908
Other funds	2,087,446	672,144	-	188,654	2,948,244
Unearned revenues:					
Municipal license tax	848,294	-	-	-	848,294
Matured bonds payable	-	-	925,000	-	925,000
Matured interest payable	-	-	404,102	-	404,102
<b>Total liabilities</b>	<u>4,697,478</u>	<u>754,160</u>	<u>1,329,102</u>	<u>216,639</u>	<u>6,997,379</u>
<b>Deferred Inflows of Resources:</b>					
Unavailable revenues:					
Commonwealth Government	30,771	666,188	-	-	696,959
Federal Government	-	-	-	61,015	61,015
<b>Total deferred inflows of resource:</b>	<u>30,771</u>	<u>666,188</u>	<u>-</u>	<u>61,015</u>	<u>757,974</u>
<b>Fund balances:</b>					
Restricted	49,220	1,737,990	1,957,103	504,712	4,249,025
Unassigned	(2,423,296)	-	-	-	(2,423,296)
<b>Total fund balances</b>	<u>(2,374,076)</u>	<u>1,737,990</u>	<u>1,957,103</u>	<u>504,712</u>	<u>1,825,729</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 2,354,173</u>	<u>\$ 3,158,338</u>	<u>\$ 3,286,205</u>	<u>\$ 782,366</u>	<u>\$ 9,581,082</u>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION**

June 30, 2015

**Total Fund Balances - Governmental Funds** \$ 1,825,729

Amounts reported for Governmental Activities in the Statement of Net Position 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	\$	6,054,454	
Depreciable capital assets		20,623,277	
Accumulated depreciation		<u>(10,451,147)</u>	
Total capital assets			16,226,584

Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:

Due from Commonwealth Government:			
Christmas bonus reimbursement		30,771	
P.R. Department of Treasury		666,188	
Due from Federal Government:			
Community Development Block Grant - State's Program		<u>61,015</u>	
			757,974

Principal payment on Bonds and Notes Payable due within one year was accumulated on the Governmental Fund Financial Statements, and for Governmental Wide Financial Statement was included as part of Non-current liabilities: 925,000

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

Bonds payable		16,100,000	
Notes payable		595,000	
Compensated absences		1,317,426	
Law 42		895,590	
Law 46		163,463	
Claims and judgments		1,105,025	
Christmas Bonus		132,499	
Landfill		4,073,592	
Due to other governmental entities		2,200,913	
Total Long-Term Liabilities			<u>(26,583,508)</u>

**Total Net Position of Governmental Activities** \$ (6,848,221)

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
June 30, 2015

	General Fund	Commonwealth Legislative Resolutions Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 2,108,672	\$ -	\$ 1,249,676	\$ -	\$ 3,358,348
Municipal license taxes	1,154,463	-	-	-	1,154,463
Municipal sales and use tax	854,461	-	750,676	-	1,605,137
Licenses, permits and other local taxes	1,264,987	-	-	-	1,264,987
Intergovernmental	6,077,349	1,019,976	-	1,045,348	8,142,673
Rent of property	13,724	-	-	10,812	24,536
Fines and forfeitures	30,074	-	-	-	30,074
Interest	8,447	-	-	-	8,447
Charge for services	167,688	-	-	1,078	168,766
Federal grants	-	-	-	675,080	675,080
Miscellaneous	215,199	-	-	-	215,199
<b>Total revenues</b>	<b>\$ 11,895,064</b>	<b>\$ 1,019,976</b>	<b>\$ 2,000,352</b>	<b>\$ 1,732,318</b>	<b>\$ 16,647,710</b>
<b>Expenditures</b>					
Current:					
General government	4,246,167	-	-	32,400	4,278,567
Public safety	1,447,270	-	-	110,070	1,557,340
Public works	3,659,176	1,480,295	-	75,665	5,215,136
Health and welfare	2,204,662	-	-	784,754	2,989,416
Culture and recreation	1,145,575	-	-	-	1,145,575
Community development	-	-	-	849,253	849,253
Education	40,833	-	-	-	40,833
Debt service:					
Principal	-	-	925,000	-	925,000
Interest	-	-	848,926	-	848,926
<b>Total expenditures</b>	<b>12,743,683</b>	<b>1,480,295</b>	<b>1,773,926</b>	<b>1,852,142</b>	<b>17,850,046</b>
Excess (deficiency) of revenues over (under) expenditures	(848,619)	(460,319)	226,426	(119,824)	(1,202,336)
Other financing sources (uses)					
Transfers in	355,012	-	78,447	-	433,459
Transfers out	(78,447)	-	(355,012)	-	(433,459)
<b>Total other financing sources (uses)</b>	<b>276,565</b>	<b>-</b>	<b>(276,565)</b>	<b>-</b>	<b>-</b>
<b>Net changes in fund balances</b>	<b>(572,054)</b>	<b>(460,319)</b>	<b>(50,139)</b>	<b>(119,824)</b>	<b>(1,202,336)</b>
Fund balance beginning	(1,802,022)	2,198,309	2,007,242	624,536	3,028,065
<b>Fund balance, ending</b>	<b>\$ (2,374,076)</b>	<b>\$ 1,737,990</b>	<b>\$ 1,957,103</b>	<b>\$ 504,712</b>	<b>\$ 1,825,729</b>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
June 30, 2015**

**Net Change in Fund Balances - Total Governmental Funds** \$ (1,202,336)

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

Governmental funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Expenditures for capital assets	\$ 156,493	
Less: Current-year depreciation	<u>(820,044)</u>	(663,551)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Community Development Block Grant - State's Program	61,015	
Christmas bonus reimbursement (current year)	30,771	
P.R. Department of Treasury	<u>666,188</u>	757,974

Revenues reported in the funds that are not reported as revenues in the Statement of Activities:

Property taxes - current year	(17,000)	
P.R. Department of Labor - Law 52	(23,618)	
Community Development Block Grant - State's Program	(61,016)	
Christmas bonus reimbursement (prior year)	<u>(74,703)</u>	(176,337)

Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Activities:

General obligation bonds and notes	875,000	
Other long-term liabilities	<u>1,117,014</u>	1,992,014

Expenditures reported in the funds which are not reported as expenses in the Statement of Activities:

Matured bonds and notes principal payments (net change)		50,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:

Compensated absences	(102,268)	
Claims and judgments	(123,052)	
Christmas Bonus	(132,499)	
P.R. Health Insurance Administration - Contribution to state health plan	<u>(421,412)</u>	(779,231)

**Change in Net Position of Governmental Activities** \$ (21,467)

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of Salinas, Puerto Rico (Municipality) is a local governmental with full legislative, fiscal and administrative power to operate as a governmental under Law No. 81 of August 30, 1991, as amended, known as the Autonomous Municipality Act of the Commonwealth of Puerto Rico (Law No. 81). The Municipality's governmental system consists of executive and legislative branches. The Constitution of the Commonwealth of Puerto Rico (the "Commonwealth") provides for the separation of powers of the executive, legislative and judicial branches. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power is exercised by the Municipal Legislature, which is also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban and economic development, and many other general and administrative duties.

The accounting policies of the Municipality conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies. The accompanying basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units.

In June 1999, GASB issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB No. 34). This statement established new financial reporting requirements for state and local governments. On July 1, 2002, the Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below. The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2015, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

According to the new financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) Government-wide Financial Statements (GWFS), (2) Governmental Fund Financial Statements (GFFS), (3) Notes to Basic Financial Statements, and (4) Required Supplementary Information (RSI). The Required Supplementary Information, which consists of a Management Discussion and Analysis (MD&A), is information presented along with, but separate from, the Municipality's basic financial statements. The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2015, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

As previously mentioned, on July 1, 2002, other statements and interpretations were also adopted in conjunction and simultaneously with GASB No. 34. Those statements and interpretations are: (1) GASB Statement No. 33 – Accounting and Financial Reporting for Non-Exchange Transactions, (2) GASB Statement No. 37 – Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus, (3) GASB Statement No. 38 – Certain Financial Statement Note Disclosures and (4) GASB Interpretation No. 6 – Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

The provisions of the GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of Statements No. 14 and 34, were considered in the evaluation of the potential component units. This statement modifies certain requirements for inclusion of components units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government under certain circumstances.

The GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB 62), incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

The Municipality adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position establishing a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Municipality’s financial statements was the renaming of “Net Assets” to “Net Position”, including changing the name of the financial statement from “Statement of Net Assets” to “Statement of Net Position”.

**A. Financial Reporting Entity**

The financial reporting entity included in this report consists of the financial statements of the Municipality of Salinas (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management’s professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity’s financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit’s relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if meets any of the following three conditions:

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

A. Financial Reporting Entity (Continued)

1. The primary government appoints a voting majority of the entity's governing body, and either:
  - A financial benefit/ burden exists between the primary government and the entity or
  - The primary government can impose its will on the entity.
2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

In addition, "special criteria" applies when evaluating a legally separate, tax-exempt organization as potential component unit. Specifically, such entities must be treated as component units if they meet all of the following criteria:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Legally separate, tax-exempt organizations that do not meet the above special criteria should still be included as a component unit if the financial statements of the primary government would be misleading without them.

There are two methods of presentation of the component unit in the financial statements: (a) *blending* the financial data of the component units' balances and transactions and (b) *discrete* presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is *blended* with those of the primary government ("*blended component units*"). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as blended if meets any of the following criteria:

1. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
  - A financial benefit/ burden exists between the primary government and the entity or
  - Management of the primary government has operational responsibility for the component unit.
2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
3. The component unit's debt is expected to be paid by the primary government.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

A. Financial Reporting Entity (Continued)

Otherwise, the component unit should be presented as discrete. Those component units do not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government (“*discretely component units*”). Legally separate, tax-exempt organizations that meet the special criteria should be included as *discretely component units*.

Based on the above criteria, there are no potential component units which should be included as part of the financial statements.

B. Financial Statement Presentation, Measurement Focus and Basis of Accounting

The financial report of the Municipality consists of the Management’s Discussion and Analysis (MD&A), basic financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

**Management’s Discussion and Analysis**

It provides a narrative introduction and analytical overview of the Municipality’s financial activities.

**Basic Financial Statements**

The basic financial statements include both the government-wide and fund financial statements. Both sets of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

**Government-wide Financial Statements (GWFS)**

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the *economic resources* measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the *accrual basis of accounting*. Revenues are recognized in the period earned and expenses in the period in which the associated liability is incurred, regardless of the timing of related cash flows. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Position presents all of the reporting entity’s non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Direct expenses are those that are clearly identifiable with a specific function. As a policy, indirect expenses are not allocated in the Statement of Activities. Program revenues must be directly associated with the function.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

B. Financial Statement Presentation, Measurement Focus and Basis of Accounting (Continued)

**Government-wide Financial Statements (GWFS) (Continued)**

The types of transactions included as program revenues are: charges for services, fees, rent, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed non-exchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

The Municipality reports unearned revenues in the government-wide statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred).

In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

**Fund Financial Statements (FFS)**

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental funds:

**General Fund** – This is the general operating fund of the Municipality. It is used to account for and report all financial resources not accounted for and reported in another fund.

**Commonwealth Legislative Resolutions Fund** – This is the fund used to account for all the transactions of the assignments of state funds through Commonwealth Legislative Resolutions. The primary objectives of this assignment is the development of projects on communities, not-for-profit organizations and pass-through assignments to persons of low and moderate income.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

B. Financial Statement Presentation, Measurement Focus and Basis of Accounting (Continued)

**Debt Service Fund** – This fund is used to account for and report financial resources that are restricted for expenditure for the payment of principal and interest of general obligation bonds and notes issued by the Municipality. This fund accounts for the resources of three individual funds: 1) “CAE Fund,” the sinking fund which accounts for the 2% of property taxes collected by the Municipal Revenue Collection Center (CRIM); 2) “Municipal Redemption Fund,” the sinking fund that accounts for the 0.2% of the 0.5% collected from the sales and use tax that is, by law, deposited in the Governmental Development Bank (GDB) for the financing of loans to Municipalities; and 3) operational loans that are paid from the general fund’s operating revenues.

The FFS are accounted for using the *current financial resources* measurement focus and the *modified-accrual basis of accounting*. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both *measurable* and *available*).

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues susceptible to accrual include property taxes, recognized as revenue in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met; and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases, revenues are recognized at the time of receipt or earlier, if the susceptible-to-accrual criterion is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible-to-accrual criterion is met.

The Municipality reports unearned revenues in the governmental funds statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants, if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case, amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) and (2) vested compensated absences, claims and judgments and special termination benefits, which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the GWFS, the expense and related accrual liability for long-term portions of debt must be included).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

B. Financial Statement Presentation, Measurement Focus and Basis of Accounting (Continued)

**Debt Service Fund** – 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 of the FFS. Likewise, long-term liabilities (generally, those un-matured that will not require the use of current financial resources to pay them) are also not accounted for in the FFS.

Since the FFS are presented on a different measurement focus and basis of accounting than the GWFS, reconciliation is necessary to explain the adjustments needed to transform the FFS into the GWFS. This reconciliation is part of the financial statements.

**Notes to Financial Statements**

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

**Required Supplementary Information (RSI)**

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability, and the Schedule of Municipality Contributions, as required by GASB.

C. Financial Reporting Presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

**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.

**Special Revenue Funds** – Is a 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. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

C. Financial Reporting Presentation

**Capital Projects Funds** – Is a 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 only for 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.

**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.

D. Deposits and Investments

The Municipality's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest 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 the GDB.

E. Restricted Assets

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

F. Receivables and Due from Governmental Entities

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from Commonwealth government in the general and debt service funds represent property tax revenues of the current fiscal year collected by the CRIM on the subsequent fiscal year. Amounts due from Commonwealth and federal governments reported in the special revenue or capital project funds represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

G. Inter-fund Receivables and Payables

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances among funds are reported as "due from/to other funds".

Advances between funds, as reported in the fund financial statements, if any, are reported as "non-spendable" in the fund balance section of the Balance Sheet to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Position, as management believes is not significant.

I. Capital Assets

Capital assets reported in the governmental activities in the Statement of Net Position include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items). The Municipality defines capital assets (except infrastructure assets) as assets with an individual cost of more than \$100 and an estimated useful life in excess of one year. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Buildings and site improvements	40 years
Infrastructure	40 years
Vehicles	5 years
Furniture and fixtures	3 to 5 years
Machinery and equipment	3 to 5 years

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

I. Capital Assets (Continued)

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

The government has three items that qualify for reporting in this category:

1. **Government-mandated or Voluntary Non-Exchange Transactions Received Before the Time Requirements have been Met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the Balance Sheet of the governmental funds and in the government-wide Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
2. **Unavailable Revenue Reported Under the Modified-Basis of Accounting** – Amounts collected or to be collected after the availability period are recognized as unavailable revenue in the governmental funds Balance Sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.
3. **Deferred Outflows/Inflows of Resources Related to Pensions** – Amounts reported for changes in the calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between Municipality's contributions and proportionate share of contributions; and e) Municipality's contributions subsequent to the measurement date.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

**K. Long-term Obligations**

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Position, include general and special obligation bonds and notes, liabilities for compensated absences, claims and judgments, landfill closure and post-closure costs and long-term liabilities to other governmental entities.

Related bond issuance costs, whenever arise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

**L. Compensated Absences**

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave.

Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997, the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

**M. 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 they matured (generally, when payment is due). The accompanying government-wide financial statements include an amount estimated as a contingent liability for liabilities as incurred.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

N. Net Position

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

- **Net Investment in Capital Assets** - Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
- **Restricted Net Position** - The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** - Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is 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.

O. Net Position Flow Assumption

Sometimes, the government will fund outlays for a particular purpose from both restricted (restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

**P. Fund Balances**

The GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54") establishes accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

- **Non-spendable** - Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- **Restricted** - Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.
- **Committed** - Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.
- **Assigned** - Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.
- **Unassigned** - Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds, the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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

**P. Fund Balances (Continued)**

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, 2015.

**Q. Fund Balance Flow Assumptions**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**R. Accounting for Pension Costs**

The Municipality adopted the provisions of GASBS No. 68, Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27, and GASBS No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, which amended GASBS No.68.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, the net pension liability, pension expense and deferred outflows/inflows of resources recognized in the accompanying basic financial statements are equal to the Municipality's proportionate shares of the collective net pension liability, pension expense and collective deferred outflows/inflows of resources reported for the pension plans' trust by the plan's administrator as of the measurement date. In addition, if the Municipality's annual contributions are less than the statutorily required amounts, a liability is recorded for any unpaid balances.

For the purpose of applying the requirements of GASBS Nos. 68 and 71, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a multi-employer hybrid defined contribution plan in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of this retirement system since the majority of the participants in the aforementioned pension trust fund are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement system are part of the Commonwealth's financial reporting entity.

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the ESR plan and additions to/reductions from the ESR plan's fiduciary net position have been determined on the same basis as they are reported by the ESR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

S. Inter-fund 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 "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.
- b. **Intra-entity transactions** - Transfers between the funds of the primary government are reported as inter-fund transfers with receivables and payables presented as amounts due to and due from other funds.

T. Risk Financing

The Municipality carries commercial insurance that consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. The Puerto Rico Department of Treasury (PRTD) acts as an agent, obtaining and determining the coverage for the municipalities in Puerto Rico. The coverage for the Municipality of Salinas consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Insurance policies costs are allocated by PRTD among all the municipalities of Puerto Rico. Payment of the Municipality's insurance premiums is monthly deducted from advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).

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. The annual premium is also deducted from the monthly advances issued by the CRIM.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Puerto Rico 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 of work or employment-related accidents or due to a non-occupational disability.

The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of worked by each employee covered by law.

U. Use of Estimates

The preparation of the basic 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 basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

V. Future Adoption of Accounting Pronouncements

The GASB has issued the following statements, which the Municipality has not yet adopted:

1. **GASB Statement No. 72 “Fair Value Measurement and Application.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).
2. **GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016), except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).
3. **GASB Statement No. 74 “Financial Reporting for Postemployment Benefit Plans Other Than Pensions.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).
4. **GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 (fiscal year ended June 30, 2018).
5. **GASB Statement No. 76 “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).
6. **GASB Statement No. 77 “Tax Abatement Disclosures.”** The provisions of this Statement are effective for fiscal years beginning after December 15, 2015 (fiscal year ended June 30, 2017).
7. **GASB Statement No. 78 “Pensions Provided through Certain Multiple-Employer Defined Benefit Plans.”** The provisions of this Statement are not effective until fiscal year 2016.
8. **GASB Statement No. 79 “Certain Investment Pools and Pool Participants.”** The provisions of this Statement are not effective until fiscal year 2016 and 2017.

The impact of these statements on the Municipality’s financial statements, if any, has not yet been determined.

W. Subsequent events

Subsequent events have been evaluated through March 4, 2016, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

COMMONWEALTH OF PUERTO RICO  
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Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and in the 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 his 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, 2015.

**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, 2015, 2) limiting the weighted average maturity of its investments to three months or less, and 3) keeping most of its bank deposits in interest-bearing accounts generating interests at prevailing market rates. At June 30, 2015, 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, 2015, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

**Custodial Credit Risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor.

In addition, public funds deposited in commercial banks are fully collateralized under 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, 2015.

Therefore, the Municipality's management has concluded that at June 30, 2015 the custodial credit risk associated with the Municipality's cash and cash equivalents is nonexistent.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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**2. CASH AND CASH EQUIVALENTS (Continued)**

**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, 2015.

**Deposits** – The Municipality's bank balances in commercial banks of approximately \$1,160,019 in the general fund and 570,742 the legislative resolutions fund, respectively, were fully collateralized at June 30, 2015. In the other governmental funds there were deposits with commercial banks of approximately \$85,126 that were fully collateralized.

The deposits at GDB of approximately \$49,220 that are restricted for other purposes in the general fund, the \$3,177,772 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks and \$505,002 that is restricted principally for other governmental funds.

**3. RECEIVABLES**

**A. Sales and Use Tax**

On July 4, 2006, the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

On July 29, 2007, the Commonwealth Legislature approved Act No. 80 (Act 80), which amends Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007, 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (GDB), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a Municipal Development Fund to be distributed among all the municipalities in accordance with a formula created by the Act,
- .2% of the .5% will be deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- .1% of the .5% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

Effective January 1, 2011, the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050, the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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**3. RECEIVABLES (Continued)**

**A. Sales and Use Tax (Continued)**

On June 30, 2013, the Commonwealth approved Act No. 40 which, among other things, reduces the municipal sales and use tax from 1.5% to 1% and increases the Commonwealth's sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014.

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014, the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances.

Act No. 18 creates a special fund called the Municipal Administration Fund (FAM), under the custody of the Government Development Bank of Puerto Rico (GDB), which permits the municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act also includes special provisions for municipalities that do not want to be covered by the Act.

After July 1, 2014, the 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds, the Commonwealth will deposit .5% in the FAM. Distribution to the municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. The Municipality of Salinas signed the agreement to be covered.

For municipalities covered by the agreement, the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities have the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions)
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

For municipalities not covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long-term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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**3. RECEIVABLES (Continued)**

**A. Sales and Use Tax (Continued)**

Act No. 19 creates the Municipal Finance Corporation (COFIM), a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax of 1%. The Act also includes special provisions for municipalities that do not want to be covered by the Act.

After July 1, 2014, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

Individuals, organizations and entities subject to the collection of the municipal sales and use tax must file a tax return to COFIM. The tax is due on or before the 20th day of each month based on the tax collected in the preceding month. COFIM has provided retailers three alternatives for the filling of the monthly return: 1) electronic filling through COFIM's internet portal; 2) in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico; and 3) in the collections offices of the municipalities that have been certified as collection agents of COFIM.

COFIM established a system of monthly advances for the transfers of the .2% destined for the Municipal Development Fund (FDM), the .2% related to the Municipal Redemption Fund (FRM) and the 1% of municipal sales and use tax. Each month, the GDB will make the FDM, FRM and 1% sales and use tax transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM, FRM and the 1% sales and use tax with the monthly advances made to each municipality. If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances.

For the FDM and FRM transfers, the advance system became effective on July 1, 2014; for the 1% municipal sales and use tax, the effective date varied depending on the implementation date of COFIM's collection process in the corresponding municipality. For the Municipality of Salinas, the implementation date was February 1, 2015. For the fiscal year ended on June 30, 2015, the Municipality's total, FRM and 1% sales and use tax advances amounted to, \$1,105,797 and \$1,212,937, respectively. The GDB has not yet issue.

Sale tax receivable represents sales tax levied that were collected subsequent to June 30, 2015, but pertaining to current year period. At June 30, 2015, the sales and use taxes receivable amounted to \$79,672.

COMMONWEALTH OF PUERTO RICO  
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Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

3. RECEIVABLES (Continued)

B. Other Receivables

The following amounts were recorded as of June 30, 2015:

	<u>Amount</u>
<b>Major Fund – General Fund</b>	
Commonwealth Government	173,692
<b>Total</b>	<b><u>\$ 173,692</u></b>

4. DUE FROM (TO) GOVERNMENTAL ENTITIES

A. Amounts due from governmental entities as of June 30, 2015 are as follows:

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<b>Major Fund – General Fund:</b>		
P.R. Department of Treasury – Christmas bonus reimbursement	\$ 30,771	\$ -
<b>Major Fund-Legislative Resolution Fund:</b>		
P.R. Department of Treasury	666,188	-
<b>-Major Fund – Debt Service Fund:</b>		
Municipal Revenue Collection Center (CRIM) – property taxes	108,433	-
<b>-Other Governmental Funds:</b>		
U.S. Department of Housing and Urban Development – CDBG – State’s Program	-	26,201
	<b><u>\$ 805,392</u></b>	<b><u>\$ 26,201</u></b>

Certain amounts are recorded as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards. See related Note 10.

B. Amounts due to governmental entities as of June 30, 2015 follows:

<u>Description</u>	<u>Commonwealth Government</u>
<b>General Fund:</b>	
P.R. Department of Labor and Human Resources	\$ 140,321
P.R. Aqueduct and Sewer Authority (PRASA)	561,846
P.R. Telephone Company	11,817
Commonwealth of Puerto Rico Employee Association	15,017
PR Retirement System Administration	176,772
General Services Administration	3,135
	<b><u>\$ 908,908</u></b>

COMMONWEALTH OF PUERTO RICO  
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**Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2015 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>State Assignment Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Accounts payable and accrued	\$ 852,830	\$ 82,016	\$ -	\$ 27,985	\$ 962,831
<b>Total</b>	<b>\$ 852,830</b>	<b>\$ 82,016</b>	<b>\$ -</b>	<b>\$ 27,985</b>	<b>\$ 962,831</b>

**6. INTERFUND TRANSACTIONS**

**A. Due from/to other funds**

Amounts due from/to other funds in the general fund represent advances to other funds to finance payroll, payroll taxes and other expenditures as follows:

<u>Receivable Funds</u>	<u>Payable Funds</u>	<u>Amount</u>
Major Fund	<u>Other Governmental Funds:</u>	
	Special Revenue Federal – Child Care	\$136,851
	Special Revenue Fund – Housekeepers program	29,720
	Special Revenue Federal – Disaster Grants Public Assistance	12,584
	Special Revenue Federal – Energy Efficiency and Conservation Block Grant	3,709
General Fund	<u>Other Governmental Funds:</u>	
	Special Revenue Federal – Section 8 Housing Choice Vouchers	5,791
General Fund	Capital Project Fund	672,144
<u>Major fund:</u>		
Commonwealth Legislative Resolutions Fund	General Fund	1,921,408
<u>Other Governmental Funds</u>	General Fund	166,037
		<b>\$ 2,948,244</b>

**B. Transfers-in (out)**

Transfers among individual funds were made for operational purposes as follows:

<u>Originating Fund</u>	<u>Receiving Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Transfer of funds for debt service	\$ 78,447
Debt Service Fund	General Fund	Transfer of interest earned for operational expenditures	355,012
<b>Total</b>			<b>\$ 433,459</b>

COMMONWEALTH OF PUERTO RICO  
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**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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**7. FUND BALANCE (DEFICIT)**

The governmental fund balance classifications and amounts a June 30, 2015 are shown in the following table:

	<u>General Fund</u>	<u>State Assignment Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Restricted</b>					
General Government	\$ 49,220	\$ -	\$ -	\$ 29,125	\$ 78,345
Public Safety	-	-	-	37,226	37,226
Public Works	-	1,737,990	-	613,947	2,351,937
Health and Welfare	-	-	-	(132,526)	(132,526)
Economic Development	-	-	-	17,955	17,955
Debt Service	-	-	1,957,103	-	1,957,103
<b>Unassigned</b>	<u>(2,423,296)</u>	<u>-</u>	<u>-</u>	<u>(61,015)</u>	<u>(2,484,311)</u>
<b>Total Fund Balances</b>	<u><u>\$ (2,374,076)</u></u>	<u><u>\$ 1,737,990</u></u>	<u><u>\$ 1,957,103</u></u>	<u><u>\$ 504,712</u></u>	<u><u>\$ 1,825,729</u></u>

COMMONWEALTH OF PUERTO RICO  
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**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**8. CAPITAL ASSETS**

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities. In addition, the infrastructure assets recorded in the accompanying Statement of Net Position do not include a substantial portion of the Municipality's infrastructure assets constructed or acquired by the Municipality from 1980 through June 30, 2015. GASB Statement No. 34 requires to retroactively applying the requirements to major general infrastructure assets within at least four (4) years of the adoption of this pronouncement, which is not later than June 30, 2007. The Municipality has not complied with this requirement.

Capital assets and depreciation activity as of and for the year ended June 30, 2015 is as follows:

<b>Governmental Activities:</b>	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2015</b>
Capital asset, not being depreciated:				
Construction in progress	\$ 160,796	-	-	\$ 160,796
Land	5,893,658			5,893,658
<b>Total capital assets not being depreciated</b>	<b>6,054,454</b>	<b>-</b>	<b>-</b>	<b>6,054,454</b>
Capital assets, being depreciated:				
Buildings and buildings improvements	9,899,793			9,899,793
Infrastructure and infrastructure improvements	6,301,664			6,301,664
Equipment, Computers, Works of Art and Furniture	1,417,034	64,104	(9,559)	1,471,579
Vehicles	2,883,011	92,389	(25,159)	2,950,241
<b>Total capital assets being depreciated</b>	<b>20,501,502</b>	<b>156,493</b>	<b>(34,718)</b>	<b>20,623,277</b>
<b>Less accumulated depreciation for:</b>				
Buildings and buildings improvements	(3,562,179)	(236,222)		(3,798,401)
Infrastructure and infrastructure improvements	(2,391,519)	(429,166)		(2,820,685)
Equipment, Computers, Works of Art and Furniture	(1,217,734)	(66,671)	9,559	(1,274,846)
Vehicles	(2,494,389)	(87,985)	25,159	(2,557,215)
<b>Total accumulated depreciation</b>	<b>(9,665,821)</b>	<b>(820,044)</b>	<b>34,718</b>	<b>(10,451,147)</b>
<b>Total capital assets being depreciated, net</b>	<b>10,835,681</b>	<b>(663,551)</b>	<b>-</b>	<b>10,172,130</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 16,890,135</b>	<b>\$ (663,551)</b>	<b>\$ -</b>	<b>\$ 16,226,584</b>

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

<b>Governmental Activities:</b>	<b>Amount</b>
General government	\$ 171,800
Public safety	83,190
Public works	464,465
Community development	71,501
Culture and recreation	10,736
Health and welfare	16,987
Education	1,365
<b>Total depreciation expense-governmental activities</b>	<b>\$ 820,044</b>

COMMONWEALTH OF PUERTO RICO  
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Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

**9. UNEARNED REVENUES**

The amounts reported as unearned revenues as of June 30, 2015 are detail as follows:

<u>Major Fund – General fund:</u>	<u>Amount</u>
Municipal license taxes collected in the fiscal year 2014-2015 that correspond to the 2015-2016 fiscal year budget	\$ 848,294
	<u>\$ 848,294</u>

**10. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS**

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund's financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

	<u>Commonwealth Government</u>
<u>Major Fund - General Fund:</u> P.R. Department of Treasury – Christmas bonus reimbursement	\$ 30,771
<u>Other Governmental Funds:</u> P.R. Department of Treasury-Commonwealth Legislative Community Development Block Grant – State's Program	666,188 61,015
	<u>\$ 757,974</u>

**11. LONG-TERM LIABILITIES**

**A. Summary of Long-term Debt Activity**

Long-term liability activity for the year ended June 30, 2015, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions and Adjustment</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 16,840,000	\$ -	\$ (740,000)	\$ 16,100,000	\$ 795,000
Notes payable	730,000	-	(135,000)	595,000	145,000
Note payable to CRIM-Law 42	923,384	-	(27,794)	895,590	29,541
Note payable to CRIM-Law 146	173,078	-	(9,615)	163,463	9,615
Landfill obligation	4,073,592	-	-	4,073,592	-
Compensated absences	1,215,158	102,268	-	1,317,426	-
Claims and judgments	1,211,973	123,052	(230,000)	1,105,025	-
Note payable - Department of Labor	265,094	-	-	265,094	90,180
Note payable - Puerto Rico Treasury Department	688,770	-	(688,770)	-	269,946
Christmas bonus	160,835	132,499	(160,835)	132,499	160,835
Payable to CRIM- property tax advances	-	17,000	-	17,000	-
State Insurance Health Administration debt	1,497,407	421,412	-	1,918,819	-
<b>Total</b>	<u>\$ 27,779,291</u>	<u>\$ 796,231</u>	<u>\$ (1,992,014)</u>	<u>\$ 26,583,508</u>	<u>\$ 1,500,117</u>

COMMONWEALTH OF PUERTO RICO  
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**Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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

**B. Legal Debt Margin**

For general obligation debt, the Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment if 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 in the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable, is paid with unrestricted funds.

**C. General and Special Obligation Bonds and Notes**

The Municipality issues general and special obligation bonds to provide funds for the acquisition of equipment and construction of major capital facilities. During the current year, no bonds were issued. Bonds payable outstanding at June 30, 2015 are as follows:

<u>Description</u>	<u>Balance at June 30, 2015</u>
1997 Series general obligation bonds for operational purposes with an original amount of \$2,240,000 due in installments of \$55,000 to \$200,000 through July 1, 2017, with interest ranging from 1.25% to 7.29%	\$ 560,000
2002 Series general obligation bonds for public improvement with an original amount of \$1,495,000 due in installments of \$20,000 to \$115,000 through July 1, 2027, with interest ranging from 4.17% to 5.31%	1,060,000
2004 Series general obligation bonds for operational purposes with an original amount of \$1,710,000 due in installments of \$30,000 to \$125,000 through July 1, 2028, with interest ranging from 1.53% to 6.62%	1,245,000
2004 Series general obligation bonds for operational purposes with an original amount of \$385,000 due in installments of \$5,000 to \$25,000 through July 1, 2027, with interest ranging from 1.53% to 6.50%	285,000
2004 Series general obligation bonds for operational purposes with an original amount of \$805,000 due in installments of \$15,000 to \$65,000 through July 1, 2028, with interest ranging from 1.53% to 6.00%	590,000
2007 Series general obligation bonds for operational purposes with an original amount of \$1,005,000 due in installments of \$50,000 to \$120,000 through July 1, 2018, with interest ranging from 1.53% to 6.60%	430,000
2009 Series general obligation bonds for operational purposes with an original amount of \$725,000 due in installments of \$45,000 to \$100,000 through July 1, 2018, with interest ranging from 1.53% to 6.00%	355,000
2010 Series general obligation bonds for purchase of building with an original amount of \$645,000 due in installments of \$10,000 to \$55,000 through July 1, 2034, with interest ranging from 4.75% to 7.50%	590,000
2010 Series general obligation bonds for operational purposes with an original amount of \$1,635,000 due in installments of \$45,000 to \$160,000 through July 1, 2027, with interest ranging from 5.00% to 6.50%	1,370,000

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

<u>Description</u>	<u>Balance at June 30, 2015</u>
2011 Series special obligation bonds for operational purposes with an original amount of \$3,760,000 due in installments of \$50,000 to \$315,000 through July 1, 2035, with interest ranging from 6.00% to 7.50%	\$ 3,515,000
2012 Series special obligation bonds for operational purposes with an original amount of \$905,000 due in installments of \$15,000 to \$80,000 through July 1, 2036, with interest ranging from 6.00% to 7.50%	860,000
2012 Series special obligation bonds for operational purposes with an original amount of \$780,000 due in installments of \$30,000 to \$85,000 through July 1, 2026, with interest ranging from 6.00% to 7.50%	685,000
2013 Series general obligation bonds for operational purposes with an original amount of \$3,325,000 due in installments of \$50,000 to \$275,000 through July 1, 2036, with interest ranging from 6.00% to 7.50%	3,220,000
2013 Series general obligation bonds for operational purposes with an original amount of \$1,375,000 due in installments of \$20,000 to \$120,000 through July 1, 2037, with interest ranging from 6.00% to 7.50%	<u>1,335,000</u>
<b>Total</b>	<b><u>\$ 16,100,000</u></b>

These bonds are payable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes, except the 2004 Series \$385,000 and \$805,000 bonds, which are payable with General Fund resources. The Series 2011, amounting \$3,760,000 and the Series 2012 amounting \$905,000 and \$780,000, are payable with the revenues generated from the collection of the .2% of the municipal sales and use tax imposed by the Municipality and collected by the Commonwealth of Puerto Rico Treasury Department.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 795,000	\$ 764,827
2017	855,000	1,042,607
2018	900,000	984,160
2019	755,000	929,327
2020	580,000	885,074
2021-2025	3,565,000	3,767,259
2026-2030	3,920,000	2,396,449
2031-2035	3,165,000	1,213,688
2036-2040	<u>1,565,000</u>	<u>151,313</u>
Total	<u>\$16,100,000</u>	<u>\$12,134,704</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

**D. 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, 2015</u>
2010 Series	7-1-16	\$ 390,000	4.75% to 7.50%	\$ 135,000
2012 Series	7-1-18	295,000	4.75% to 7.50%	185,000
2014 Series	7-1-20	310,000	6.00% to 7.50%	<u>275,000</u>
Total notes payable				<u>\$ 595,000</u>

These notes are payable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes, except for the Series 2014 note of \$310,000, that is payable with the revenues generated from the collection of the .2% of the municipal sales and use tax imposed by the Municipality and collected by the Commonwealth of Puerto Rico Treasury Department.

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

<u>Year Ending June 30, 2015</u>	<u>Principal</u>	<u>Interest</u>
2016	145,000	31,350
2017	155,000	27,762
2018	95,000	18,562
2019	95,000	11,438
2020	50,000	6,000
2021-2025	<u>55,000</u>	<u>2,063</u>
Total	<u>\$ 595,000</u>	<u>\$ 97,175</u>

**E. Note Payable to CRIM – Law No. 42** – The Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2033. The outstanding balance of the note payable to the CRIM at June 30, 2015 amounted to \$895,590.

**F. Note Payable to CRIM – Law No. 146** – On September 24, 2002, the CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001. The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by the Public Finance Corporation, a subsidiary of the GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996. The outstanding balance of the note payable to the CRIM at June 30, 2015g amounted to \$163,463.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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11. LONG-TERM LIABILITIES (CONTINUED)

- G. Landfill Obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 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 guarantee the maximum yield of available space and to comply with applicable state and federal regulations.
- H. Compensated Absences-** The government-wide statement of net assets includes approximately \$635,010 of accrued sick leave benefits, and approximately \$682,416 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- I. Claims and Judgments –** Liabilities of \$1,105,025 reported in the statement of net position represent the balance owed for claims and judgments at June 30, 2015.
- J. Note Payable – Department of Labor –** The Municipality entered into a financing agreement with the State Department of Labor, for the payment of the Municipality's debt for unemployment benefits. The balance at June 30, 2015 of this agreement was \$265,094.
- K. Christmas Bonus -** represents the accrued portion corresponding to the fiscal year 2015 of the Christmas bonus to be paid in December 2015. The outstanding amount is \$132,499.
- L. Payable to CRIM –** property tax advances - The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. If actual collections exceed the advances, a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. The final settlement made by CRIM for the fiscal year 2013-2015 reported an excess of advances over actual collections. The resulting payable will be amortized in the 2015-2016 fiscal year through withholdings from the monthly advances to be received by the Municipality in that fiscal year.
- M. State Insurance Health Administration –** Liabilities of \$1,918,819 reported in the statement of net position represent the balance owed for services provided by the State Insurance Health Administration to the Municipality and not paid at June 30, 2015.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**12. PROPERTY TAXES**

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1<sup>st</sup> and January 1<sup>st</sup>. Total tax rates in force as of June 30, 2015 are 8.33% for personal property and 10.33% for real property. The distribution of these rates follows:

Description	Personal Property	Real Property
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	3.50%	3.50%
Total tax rate:	8.53%	10.53%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
<b>Total percent to be paid by taxpayers:</b>	<b>8.33%</b>	<b>10.33%</b>

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government.

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded.

On December 9, 2013, Law No. 145 "Getting Caught Up with Past Due CRIM Taxes – Incentive Plan for the Payment of Due Taxes" was approved granting an amnesty from the payment of interest, surcharges and penalties on real and personal property taxes owed from the fiscal years prior to 2014-2015. This amnesty/incentive plan was available from December 18, 2013 to March 27, 2014. This plan also awarded CRIM the faculty to grant payment plans to taxpayers up to a maximum of four years.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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**13. VOLUME OF BUSINESS TAX**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year. The tax rates are as follows:

- 1.50% for financial institutions and savings and loan associations.
- 0.30% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

**14. PENSION PLAN**

**General Information about the Pension Plan**

As of June 30, 2015, regular employees of the Municipality contribute to a cost-sharing multiple employer hybrid defined benefit and defined contribution retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation. The pension plan operates under Act No. 447 of May 15, 1951, as amended, Act No. 305 of September 24, 1999 (System 2000 Reform) and Act No. 3 of April 4, 2013.

Under Act 447, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. For active participants of the contributory defined benefit programs under Act No. 447, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the hybrid pension plan established by Act No. 3. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

Participants under the defined contribution plan established by Reform System 2000 will receive a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return. New participants under the hybrid plan established by Act No. 3 will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment). The minimum monthly pension for current retirees is \$500.

Disability benefits previously provided by Act No. 447 and Reform System 2000 were eliminated by Act No. 3 and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 (\$5,000 x .25%).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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**14. PENSION PLAN (CONTINUED)**

**General Information about the Pension Plan (Continued)**

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to \$476,292.

As required by Act 32 of June 25, 2015, the Additional Uniform Contribution (AUC) was established for the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Municipality's AUC for the fiscal year 2014-15, amounted to \$149,569, of which \$37,392 (25%) was subsidized by the OMB.

**Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions**

As per the requirements of the GASB Statements No. 67 and 68, ESR is required, as the pension plan's administrator, to provide to each of its participating employers audited actuarial and financial information used in the calculation of their proportionate share of the plan's net pension liability, pension expense and deferred outflows/inflows of resources related to pensions as of the measurement date. For the fiscal year ended June 30, 2015, the measurement date is June 30, 2014. In addition, the ESR has to provide all the required actuarial and historical data to be reported in the notes to the financial statements of the Municipality and as Required Supplementary Information (RSI).

However, as indicated in the Basis for Adverse Opinion section of the independent auditors' report, the ESR has not provided to the Municipality the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the criteria set forth in the GASB Statement No. 68. The ESR has informed its participating employers that the audited actuarial and financial data will be available in a future date during the calendar year 2016. The effects of this departure from U.S. generally accepted accounting principles in the assets, liabilities, deferred outflows/inflows of resources and net position of the Municipality's governmental activities cannot be determined at this time.

**15. POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in note 15, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonuses and death benefits. However, beginning July 1, 2013, Act No. 3 of 2013 eliminated all Special Law benefits to future retirees.

For the fiscal year ended June 30, 2015, the costs related to these post-employment benefits amounted to \$280,815, of which \$136,300 (49%) was subsidized by OMB. These benefits are recorded as expenditures in the general fund.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

**Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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**16. RISK MANAGEMENT**

The Property Division, attached to the Municipality, 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 Department of the Treasury 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 (3) fiscal years.

**17. COMMITMENTS AND CONTINGENCIES**

**a. Federal Grants**

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2014, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. 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, not to be material.

**b. Claims and Lawsuits**

The Municipality is a defendant in a number of lawsuits amounting to \$9 million and arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$1,105,025 for awarded or anticipated unfavorable judgments related with waste disposal in the Government-Wide financial statements. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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**18. LANDFILL CLOSURE AND POSTCLOSURE CARE COST OBLIGATION**

State and Federal Laws and Regulations require the Municipality to place a final cover on its landfill site when it stopped accepting waste, and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. GASB Statement No. 18 of "Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Cost", require the Municipality to perform a study of the activities that need to be implemented at the Municipality's Solid Waste Landfill facilities to guarantee the maximum yield of available space and to comply with applicable State and Federal Regulations. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality must report a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each Statement of Net Position date. The Municipality has not updated this liability, but has recognized \$4,073,592 an estimated current cost for landfill closure and post-closure costs as of June 30, 2015. Actual costs may be different once a study has been made as per the required regulations and due to inflation, changes in technology, or changes in Laws and Regulations. The balance of closure and post-closure is presented in the Government-wide Financial Statements.

The Municipality will recognize the remaining estimated cost of closure and post-closure care as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2014. The estimated life of the landfill according to the engineers of the Municipality is approximately 25 years. Actual cost may be higher due to inflation, changes in technology, or changes in Regulations.

**19. SUBSEQUENT EVENTS**

*Puerto Rico Fiscal and Economic Growth Plan*

On September 9, 2015, the Working Group for the Fiscal and Economic Recovery of Puerto Rico established by the Governor Alejandro García Padilla by executive order EO 2015-022 submitted the Fiscal and Economic Growth Plan (FEGP), setting forth economic development, structural, fiscal and institutional reform measures intended to meaningfully reduce the Commonwealth's projected financing gaps. In order to ensure compliance with the FEGP measures, the Working group proposes the implementation of a control board and new budgetary regulations, pursuant to proposed legislations known as the Fiscal Responsibility and Economic Revitalization Act (FRERA). The reform measures proposed by the FEGP, including the creation of the control board, have been submitted to the Commonwealth Legislature for review and final approval.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Budgetary Comparison Schedule – General Fund  
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 2,108,672	\$ 2,108,672	\$ 2,108,672	\$ -
Municipal license tax	1,434,106	1,434,106	1,154,463	(279,643)
Municipal sales and use tax	1,010,000	1,010,000	857,831	(152,169)
Licenses, permits and other local taxes	1,417,562	1,417,562	1,315,354	(102,208)
Charges for services	139,450	139,450	167,688	28,238
Intergovernmental	5,754,629	5,754,629	5,782,753	28,124
Fines and forfeiture	100,000	100,000	30,074	(69,926)
Rent of property	44,280	44,280	14,684	(29,596)
Interest	18,000	18,000	8,447	(9,553)
Miscellaneous	220,000	220,000	233,648	13,648
<b>Total revenues</b>	<u>12,246,699</u>	<u>12,246,699</u>	<u>11,673,614</u>	<u>(573,085)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General government	4,465,794	4,465,794	4,153,940	311,854
Public safety	1,857,806	1,857,806	1,447,270	410,536
Public works	2,734,272	2,734,272	2,835,578	(101,306)
Health and welfare	2,191,279	2,191,279	2,204,662	(13,383)
Culture and recreation	858,512	858,512	1,145,576	(287,064)
Education	40,111	40,111	40,833	(722)
Operating transfer to other funds	98,925	98,925	78,447	20,478
<b>Total expenditures, encumbrances and other financing uses</b>	<u>12,246,699</u>	<u>12,246,699</u>	<u>11,906,306</u>	<u>340,393</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (232,692)</u>	<u>\$ (232,692)</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 11,673,614
Differences-budget to GAAP:				
Non-budgeted transfer in				355,012
GAAP adjustments to revenues				<u>221,450</u>
<b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u><u>\$ 12,250,076</u></u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 11,906,306
Differences-budget to GAAP:				
Non-budgeted expenditures				<u>915,824</u>
<b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u><u>\$ 12,822,130</u></u>

See notes to the Budgetary Comparison Schedule-General Fund.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

Notes to Budgetary Comparison Schedule – General Fund  
For the Fiscal Year Ended June 30, 2015

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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, 2015 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2015.



**NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

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**INDEPENDENT AUDITOR'S 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,  
Members of the Municipal Legislature  
and People of the Municipality of Salinas  
Salinas, Puerto Rico

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Salinas of the Commonwealth of Puerto Rico (the Municipality), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 4, 2016. We did not express an opinion on the governmental-wide financial statements because we were unable to obtain sufficient and competent evidential matter related to capital assets, accounting records and estimated landfill closure and post-closure care cost liability.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

**INDEPENDENT AUDITOR'S 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)

**Internal Control Over Financial Reporting (Continued)**

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs 2015-001, 2015-002 and 2015-003 to be material weaknesses.

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. There were no significant deficiency as described in the accompany Schedule of Findings and Questioned Costs.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Municipality's Response to Findings**

Municipality's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Nieves Velazquez & Co., P.S.C.*

**NIEVES VELAZQUEZ & CO., P.S.C.**

San Juan, Puerto Rico

March 4, 2016

Stamp No. 02725849 of the Puerto Rico Society of Certified Public Accountants has been affixed to the original of this report.





**NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Mayor,  
Members of the Municipal Legislature  
and People of the Municipality of Salinas  
Salinas, Puerto Rico

**Report on Compliance for Each Major Federal Program**

We have audited the Municipality of Salinas of the Commonwealth of Puerto Rico (the Municipality) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Municipality of Salinas of the Commonwealth of Puerto Rico major federal programs for the year ended June 30, 2015. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Municipality'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Municipality's compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133  
(Continued)**

***Opinion on Each Major Federal Program***

In our opinion, the Municipality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2015.

***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, 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 item 2015-004. Our opinion on each major federal program is not modified with respect to these matters.

The Municipality's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the Municipality's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

*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. 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 FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133  
(Continued)**

**Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Nieves Velazquez & Co., P.S.C.*

**NIEVES VELAZQUEZ & CO., P.S.C.**

San Juan, Puerto Rico

March 4, 2016

Stamp No. 02725850 of the Puerto Rico Society of  
Certified Public Accountants has been affixed  
to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2015**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Direct Program:			
Section 8 - Housing Choice Voucher	14.871	Not Available	\$ 524,777
Pass-through the Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants - States's Program	14.228	Not Available	<u>849,253</u>
Total U.S. Department of Housing and Urban Development			<u>1,374,030</u>
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>			
Direct Program:			
Brownfields Petroleum Assessment (Recovery Act Funded)	66.818	Not Available	<u>70</u>
Total U.S. Environmental Protection Agency			<u>70</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Pass-through the Administration for Children and Family:			
Child Care and Development Block Grant	93.575	Not Available	150,210
Community Services Block Grant	93.569	Not Available	<u>39,704</u>
Total U.S. Department of Health and Human Services			<u>189,914</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Pass-through the Commonwealth of Puerto Rico - Governor's Authorized Representative Office (GAR):			
Disaster Grants - Public Assistance	97.036	Not Available	<u>62,359</u>
Total U.S. Department of Homeland Security			<u>62,359</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u><u>\$ 1,626,373</u></u></b>

See Notes to the Schedule of Federal Financial Awards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2015**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Salinas 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*.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits' identity the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient.

**2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

<b>Description</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Per Schedule of Expenditures of Federal Awards	\$ 1,626,373	1,626,373
Additional amount recorded, as expenditures under modified accrual basis for Section 8 HCV Program	1,841	1,841
Non-federal programs expenditures	<u>223,928</u>	<u>223,928</u>
Total expenditures in the fund financial statements	<u>\$ 1,852,142</u>	<u>\$ 1,852,142</u>

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

***Financial Statements***

Type of Auditor’s Report issued

- Governmental – Wide Financial Statements
- Governmental – Fund Financial Statements

**Adverse**  
**Unmodified**

Internal Control Over Financial Reporting:

- Material weakness identified?
- Significant deficiency identified that is not considered to be material weaknesses?

X  Yes   No  
  Yes  X  No

Noncompliance material to financial statement noted?

X  Yes   No

***Federal Awards***

Internal Control Over Major Programs:

- Material weakness identified?
- Significant deficiency identified that is not considered to be material weaknesses?

Yes  X  No  
  Yes  X  No

Type of Auditor’s Report issued on compliance for Major Programs

**Unmodified**

Any audit findings disclosed that are required to be reported in Accordance with Section 510 (a) of Circular A-133

X  Yes   No

Identification of Major Programs:

**CFA Number(s)**

**Name of Federal Program**

14.228

Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:

**\$300,000**

Audit qualified as low-risk audited?

Yes  X  No

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**FINDING:** 2015-001

**REQUIREMENT:** ACCOUNTING RECORDS AND FINANCIAL STATEMENT

**CONDITION:** During our examination of the accounting cycle, we noted again that the Municipality has installed a new accounting software system to replace the old system installed by OCAM in May 2014. However, such system does not generate the financial statements in conformity with generally accepted accounting principles. The accounting records are maintained in the cash and budgetary basis and at the end of year; personnel of the finance department and external consultants, summarized in electronic worksheets, the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long term debts. These worksheets are used for the preparation of the financial statements.

Also, we noted the following conditions during our evaluation of the accounting cycle:

- a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. These accounting systems do not provide for a self-balancing set of accounts for each fund operated by the Municipality. Both systems have significant differences at June 30, 2012, principally those arising of significant amounts of checks issued manually from the General Fund bank account and the special revenue funds bank accounts.
- b. Both accounting systems, does not help management to distinguish between expenditures incurred and encumbrances, does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payable and long-term debts.
- c. No adequate year-end closing entries procedures are made to account for all transactions affecting all funds. This finding is repeated in prior years.

**CRITERIA:** According to Article 8.010(a) and (b) of Law No. 81 for the Municipalities of Puerto Rico, the computerized system and the procedures of accounting and property will be designed so that it allows the Municipality to carry out its functions, at the same time as they serve to maintain an uniform and coordinated accounting that provide a complete picture of the financial operations of the Municipality and the necessary financial information that assist the Municipality Legislature, the Governor, and the Secretary of the Puerto Rico Treasury Department in the performance of its respective responsibilities. Municipalities accounting will be based on funds, Generally Accepted Accounting Principles and the requirements established by the Governmental Accounting Standards Boards.

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

<b>FINDING:</b>	<b>2015-001 (Continued)</b>
<b>REQUIREMENT:</b>	<b>ACCOUNTING RECORDS AND FINANCIAL STATEMENT (Continued)</b>
<b>CAUSE:</b>	Lack of internal control to maintain updated accounting records.
<b>EFFECT:</b>	The Municipality's Government Wide Financial Statement do not present fairly, the financial position of the governmental activities.
<b>RECOMMENDATION:</b>	The Municipality should maintain complete and adequate records in order to obtain sufficient and competent accounting information.
<b>QUESTIONED COST:</b>	<b>NONE</b>
<b>MANAGEMENT RESPONSE:</b>	The new accounting system complies with the Generally Accepted Accounting Principles. The system generates the balance sheet, trial balance, and account analysis reports. The Finance Director in coordination with Municipality's Consultants will address the situation. Nonetheless, this situation does not affect the financial statements presentation for GAAP purposes.

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

<b>FINDING:</b>	<b>2015-002</b>
<b>REQUIREMENT:</b>	<b>ACCOUNTING RECORDS – PROPERTY, PLANT AND EQUIPMENT</b>
<b>CONDITION:</b>	At June 30, 2015, the Municipality does not have an effective system to account for capital assets, principally the infrastructure assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality has not recorded depreciation expense for the infrastructure not reported in the subsidiary ledger. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality has not performed periodical physical inventories of its Capital Assets during the last two fiscal years. This finding is repeated from prior years.
<b>CRITERIA:</b>	Article 10.002 of State Law Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991, stated that Municipality should maintain updated property accounting records.
<b>CAUSE:</b>	The Municipality did not maintain an adequate control of the accountability of its capital assets.
<b>EFFECT:</b>	The Municipality’s Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in net assets of the Municipality.
<b>RECOMMENDATION:</b>	We recommend management and the Property Division of the Municipality to make an inventory of the capital assets and reconcile with the capital assets subsidiary ledger. In addition, the Municipality should implement adequate internal control procedures to improve the accountability of its infrastructure assets.
<b>QUESTIONED COSTS:</b>	<b>NONE</b>
<b>MANAGEMENT RESPONSE:</b>	The Finance Department Director through the Property Division will implement the Property Module in the new computerized accounting system to ensure that the capital assets are recorded properly and reconcile it on a quarterly basis.

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

<b>FINDING:</b>	<b>2015-003</b>
<b>REQUIREMENT:</b>	<b>MUNICIPAL SOLID WASTE LANDFILL – GASB 18</b>
<b>CONDITION:</b>	The estimated liability and the related disclosure presented in the financial statement related to costs of closure and post-closure of the municipal solid waste landfill is not based on actual engineering studies. Therefore, we were unable to obtain a reliable base on which those estimates were based. Management believes that the effect in the basic financial statements is not material. However, as years going by the accrual will be material and the amount must be based on reliable sources. This finding is repeated from prior years.
<b>CRITERIA:</b>	The Governmental Accounting Standards Statement No. 18, “Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Cost” require that the Municipality maintain adequate accounting records to support the estimated closing and post-closing are cost.
<b>CAUSE:</b>	The Municipality does not have adequate resources to determine the required cost closure and post-closure of it landfill.
<b>EFFECT:</b>	The Municipality’s Governmental Wide Financial Statements do not present fairly the financial position of the governmental activities.
<b>RECOMMENDATION:</b>	We recommend the Municipality’s management to have an environmental engineer to perform the required studies and comply with the GASB No. 18.
<b>QUESTIONED COSTS:</b>	<b>NONE</b>
<b>MANAGEMENT RESPONSE:</b>	We acknowledge the importance of updating the estimate for the landfill closure and post-closure care costs for the proper recognition of the related long-term liability in the Government-Wide Financial Statements. We will employ the services of engineers specialized in this field in order to properly reflect in the debt estimate the current conditions of the operations of the landfill, including the capacity used to date; its remaining useful service life; and the costs to be incurred in the future taking into account regulatory requirements, inflation and other economic factors.

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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**SECTION III –FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Major Programs</u>	<u>Finding Number</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
CDBG	2015-004	<p><b><u>Cash Management</u></b></p> <p><i>Condition:</i></p> <p>In two (2) cases, the program elapsed time of Federal Funds disbursement were made between 6 and 23 business days, after the three business days required by federal regulation and was not minimizing the time between the transfer of Federal Funds and the disbursements.</p> <p><i>Criteria:</i></p> <p>As per (1-102 Common Rule 21, OMB Circular A-110, 2 CFR Section 215.22) state that procedures must be implemented to minimize the time between the drawdown and the disbursement from the time elapsing between the transfer of deposit of the federal funds to the bank and their disbursement were minimized.</p> <p><i>Effect:</i></p> <p>The Municipality does not comply with the A-102, Common rule 21, OMB Circular A-110, 2 CFR Section 215.22, Cash Management Requirement.</p> <p><i>Cause:</i></p> <p>The administrative personnel related with the disbursement procedures are not processing the payments on time to minimize the time elapsed between the drawdown of funds and the disbursement of funds.</p> <p><i>Recommendation:</i></p> <p>We recommend the Program Officials to obtain all necessary documents approval on time in order to release the funds within the time requirement.</p> <p><i>Management Response:</i></p> <p>The Municipality implemented the written procedures about the internal controls and was trained Municipality Finance staff and federal programs, about internal controls adopted to prevent recurrence of this situation.</p>	—

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2014	All Programs	14-II-1	Accounting Records and Financial Statements	Finding repeated in the current year. (See Finding 2015-001)
			<p><u>Criteria:</u></p> <p>According to Article 8.010(a) and (b) of Law No. 81 for the Municipalities of Puerto Rico, the computerized system and the procedures of accounting and property will be design so that it allows the Municipality to carry out its functions, at the same time as they serve to maintain an uniform and coordinated accounting that provide a complete picture of the financial operations of the Municipality and the necessary financial information that assist the Municipality Legislature, the Governor, and the Secretary of the Puerto Rico Treasury Department in the performance of its respective responsibilities. Municipalities accounting will be based on funds, Generally Accepted Accounting Principles and the requirements established by the Governmental Accounting Standards Board.</p>	
			<p><u>Condition:</u></p> <p>During our examination of the accounting cycle, we noted that the Municipality has installed a new accounting software system to replace the old system installed by OCAM in May 2014. However, such system does not generate the financial statements in conformity with Generally Accepted Accounting Principles. The accounting records are maintained in the cash and budgetary basis and at the end of year; personnel of the Finance Department and external consultants, summarized in electronic worksheets, the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long term debts. These worksheets are used for the preparation of the financial statements.</p>	

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2015**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2014	All Programs	14-II-1	Accounting Records and Financial Statements (Continued)	

Condition:

Also, we noted the following conditions during our evaluation of the accounting cycle:

- a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. These accounting systems do not provide for a self-balancing set of accounts for each fund operated by the Municipality. Both systems have significant differences at June 30, 2012, principally those arising of significant amounts of checks issued manually from the General Fund bank account and the special revenue funds bank accounts.
- b. Both accounting systems, does not help management to distinguish between expenditures incurred and encumbrances, does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payable and long-term debts.
- c. No adequate year-end closing entries procedures are made to account for all transactions affecting all funds. This finding is repeated in prior years.

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2014	All Programs	14-II-2	<b>Accounting Records – Property and Equipment</b>  <u>Criteria:</u>  Article 10.002 of State Law Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991, stated that Municipality should maintain updated property accounting records.  <u>Condition:</u>  At June 30, 2014, the Municipality does not have an effective system to account for capital assets, principally the infrastructure assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality has not recorded depreciation expense for the infrastructure not reported in the subsidiary ledger. The infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality has not performed periodical physical inventories of its capital asset during the last two fiscal years. This finding is repeated from prior years.	Finding repeated in the current year. (See Finding 2015-002)

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2014	All Programs	14-II-3	<p><b>Municipal Solid Waste Landfill – GASB 18</b></p> <p><u>Criteria:</u></p> <p>The Governmental Accounting Standards Statement No. 18, “Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Cost” require that the Municipality maintain adequate accounting records to support the estimated closing and post-closing are cost.</p> <p><u>Condition:</u></p> <p>The estimated liability and the related disclosure presented in the financial statement related to costs of closure and post-closure of the municipal solid waste landfill is not based on actual engineering studies. Therefore, we were unable to obtain a reliable base on which those estimates were based. Management believes that the effect in the basic financial statements is not material. However, as years going by the accrual will be material and the amount must be based on reliable sources. This finding is repeated from prior years.</p>	Finding repeated in the current year. (See Finding 2015-003)
06/30/2014	CDBG	14-III-1	<p><b>Cash Management</b></p> <p><u>Criteria:</u></p> <p>As per (1-102) Common Rule 21, OMB Circular A-110, 2 CFR Section 215.22) state that procedures must be implemented to minimize the time between the drawdown and the disbursement from the time elapsing between the transfer of deposit of the federal funds to the bank and their disbursement were minimized.</p> <p><u>Condition:</u></p> <p>In two (2) cases, the program elapsed time of Federal Funds disbursement were made between 9 and 28 business days, after the three (3) business days required by Federal Regulation and was not minimizing the time between the transfer of Federal Funds and the disbursements.</p>	Finding repeated in this year. (See Finding 2015-004)

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2015**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2013	All Programs	13-II-1	<b>Accounting Records and Financial Statements</b>  <u>Criteria and Condition:</u>  Article 8.010(b) of State Act Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP). In addition, Article 8.010(c), states that uniform accounting system used by the Municipality must produce reliable reports and financial statements, provide complete information about the results of operations of the Municipality and include the necessary internal controls to account for all funds, capital assets and other assets.  During our examination of the accounting cycle, we noted that the Municipality has not established an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles. The accounting records are maintained in the cash and budgetary basis and at the end of year; personnel of the finance department and external consultants, summarized in electronic worksheets, the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long-term debts. These worksheets are used for the preparation of the financial statements.	Finding repeated in the current year. (See Finding 2015-001)

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2015**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2013	All Programs	13-II-1	Accounting Records and Financial Statements (Continued)	

Criteria and Condition (Continued):

Also, we noted the following conditions during our evaluation of the accounting cycle:

- a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. These accounting systems do not provide for a self-balancing set of accounts for each fund operated by the Municipality. Both systems have significant differences at June 30, 2012, principally those arising of significant amounts of checks issued manually from the General Fund bank account and the special revenue funds bank accounts.
- b. Both accounting systems, does not help management to distinguish between expenditures incurred and encumbrances, does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payable and long-term debts.
- c. No adequate year-end closing entries procedures are made to account for all transactions affecting all funds.

COMMONWEALTH OF PUERTO RICO  
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**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2015**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2013	All Programs	13-II-2	<p><b>Accounting Records – Property and Equipment</b></p> <p><i>Criteria and Condition:</i></p> <p>Article 10.002 of State Law Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991, stated that Municipality should maintain updated property accounting records.</p> <p>At June 30, 2015, the Municipality does not have an effective system to account for capital assets, principally the infrastructure assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality has not recorded depreciation expense for the infrastructure not reported in the subsidiary ledger. The infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality has not performed periodical physical inventories of its capital asset during the last two fiscal years. This finding is repeated from prior years.</p>	<p>Finding is repeated in the current year. (See Finding 2015-002)</p>

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2013	All Programs	13-II-3	<b>Municipal Solid Waste Landfill GASB 18</b>  <u>Criteria and Condition:</u>  The Governmental Accounting Standards Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Cost" require that the Municipality maintain adequate accounting records to support the estimated closing and post-closing are cost.  The estimated liability and the related disclosure presented in the financial statement related to costs of closure and post-closure of the municipal solid waste landfill is not based on actual engineering studies. Therefore, we were unable to obtain a reliable base on which those estimates were based. Management believes that the effect in the basic financial statements is not material. However, as years going by the accrual will be material and the amount must be based on reliable sources. This finding is repeated from prior years.	Finding is repeated in the current year. (See Finding 2015-003)

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2012	All Programs	12-II-1	<b>Accounting Records and Financial Statements</b>  <u>Criteria and Condition:</u>  <p>Article 8.010(b) of State Act Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP). In addition, Article 8.010(c), states that uniform accounting system used by the Municipality must produce reliable reports and financial statements, provide complete information about the results of operations of the Municipality and include the necessary internal controls to account for all funds, capital assets and other assets.</p> <p>During our examination of the accounting cycle, we noted that the Municipality has not established an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles. The accounting records are maintained in the cash and budgetary basis and at the end of year; personnel of the finance department and external consultants, summarized in electronic worksheets, the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long-term debts. These worksheets are used for the preparation of the financial statements.</p>	<p>Finding repeated in the current year. (See Finding 2015-001)</p>

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2015**

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<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2012	All Programs	12-II-1	Accounting Records and Financial Statements (Continued)	

*Criteria and Condition (Continued):*

Also, we noted the following conditions during our evaluation of the accounting cycle:

- a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. These accounting systems do not provide for a self-balancing set of accounts for each fund operated by the Municipality. Both systems have significant differences at June 30, 2012, principally those arising of significant amounts of checks issued manually from the General Fund bank account and the special revenue funds bank accounts.
- b. Both accounting systems, does not help management to distinguish between expenditures incurred and encumbrances, does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payable and long-term debts.
- c. No adequate year-end closing entries procedures are made to account for all transactions affecting all funds.

COMMONWEALTH OF PUERTO RICO  
**MUNICIPALITY OF SALINAS**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2012	All Programs	12-II-2	<b>Accounting Records – Property and Equipment</b>  <u>Criteria and Condition:</u>  Article 10.002 of State Law Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991, stated that Municipality should maintain updated property accounting records.  At June 30, 2013, the Municipality does not have an effective system to account for capital assets, principally the infrastructure assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality has not recorded depreciation expense for the infrastructure not reported in the subsidiary ledger. The infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality has not performed periodical physical inventories of its capital asset during fiscal year 2011-2012.	Finding is repeated in the current year. (See Finding 2015-002)
06/30/2012	All Programs	12-II-3	<b>Municipal Solid Waste Landfill – GASB 18</b>  <u>Criteria and Condition:</u>  The estimated liability and the related disclosure presented in the financial statement related to costs of closure and post-closure of the Municipal Solid Waste Landfill is not based on actual engineering studies. Therefore, we were unable to obtain a reliable base on which those estimates were based. Management believes that the effect in the basic financial statements is not material. However, as year going by the accrual will be material and the amount must be based on reliable sources.	Finding is repeated in the current year. (See Finding 2015-003).



Estado Libre Asociado de Puerto Rico  
**MUNICIPIO DE SALINAS**

Oficina de la Alcaldesa

**CORRECTIVE ACTION PLAN**

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**Procedure: Grant Financial Management**

**Title: Grant Financial Management Report Procedure**

**Procedure Date: March 14, 2016**

**Section: Cash Management**

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**PURPOSE:** This SOP will outline the major activities to guarantee that the grantee agrees to minimize in all federally assisted projects the time elapsing between the transfer of funds from the United States Treasury or the pass through entity and the disbursement by the non-federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means in compliance with 24 CFR 85.21 (b), 2 CFR §200.305. The grantee certifies that it will emit the supplier's payment within a period no longer than three days.

**SCOPE:** This procedure applies to all employees within the Finance and Federal Programs Departments, and those employees who either review and approve or manage projects that are funded by Grants and Cooperative Agreements from the Housing Human Development (HUD).

**PROCEDURE:**

- The process of inspection and pre intervention begins, which reviews the authenticity of the documents from rendered services, or purchases made.
- The Fiscal Agent of the Federal Programs Department proceeds to request on OCAM's PROFE System the funds.
- Once the request is made, the funds arrive at OCAM and then are delivered to the grantee's Administration Office.
- The Fiscal Agent from the Federal Programs Department in coordination with the Accountant from the Finance Department, initiate the process of depositing the funds.
- Soon after, The Fiscal Agent and the Finance Director will be monitoring continually the availability of funds.
- The Director of the Finance Department signs the proof of payment and emits the supplier's check within a period no longer than three days.

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- Compliance of the Cash Management procedure is confirmed with the check's issue date and with copy of the cancelled check.
- A cancelled check's file is prepared and kept by the CDBG Fiscal Agent in the Federal Programs Department.

**ASSIGNMENT OF RESPONSIBILITY:** The Finance Department. This procedure will also involve review and approval of these documents by the respective project managers.

**LEGAL REQUIREMENTS:** 24 CFR 85.21 (b), 2 CFR §200.305

**APPROVED:**

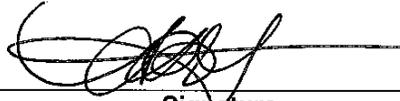
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**Signature**  
Finance Department Director

3/14/16  
**Date**

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**Signature**  
Federal Programs Director

3/14/16  
**Date**