

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE SALINAS

AUDITORIA 2002-2003

30 DE JUNIO DE 2003

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2003

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF SALINAS

YEAR ENDED JUNE 30, 2003

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF SALINAS

YEAR ENDED JUNE 30, 2003

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Salinas, Puerto Rico**, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discuss in the following paragraph, we conducted our audit 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 the provisions of the Office of Management and Budget 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 the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 12 to the financial statements, management has not recorded certain capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the **Municipality of Salinas, Puerto Rico**, as of June 30, 2003, and the changes in financial position, thereof for the year then ended.

INDEPENDENT AUDITORS' REPORT (Continued)

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects the financial position of each major fund and the aggregate remaining fund information of the **Municipality of Salinas, Puerto Rico** as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 10 and the Budgetary Comparison Schedule-General Fund on pages 39 and 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2003 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 grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the **Municipality of Salinas, Puerto Rico** taken as 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 not a required part of the respective financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

López-Vega, CPA, PSC
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 30, 2003

Stamp No. 1942272 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

MANAGEMENT AND DISCUSSION ANALYSIS

YEAR ENDED JUNE 30, 2003

Management's Discussion and Analysis

Management of the Municipality of Salinas (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments for the fiscal year ended on June 30, 2003. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the following goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget,) and;
- e) Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality net assets decreased by \$ 1,504,191.
- In the fund financial statements, the governmental activities revenue increased \$ 723,790 (or 5%) while governmental activities expenditures increased \$ 3,316,116 (or 30%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$ 285,232.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$ 796,837.
- The Municipality issued bonds amounting to \$1,495,000 to finance capital improvements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Using This Annual Report

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Fund Financial Statements (Continued)

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

The Municipality commenced the reporting of infrastructure assets during the current year. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined negative net assets (excess of liabilities over assets) totaled \$ 12,224,182 at the end of 2003, compared to \$ 10,719,991 at the end of the previous year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Net Assets (Continued)

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Condensed Statement of Net Assets
June 30, 2003

Current assets	\$ 3,073,664
Capital assets	1,418,280
Other assets	<u>2,020,065</u>
Total assets	<u>6,512,009</u>
Current liabilities	2,119,346
Noncurrent liabilities	<u>16,616,845</u>
Total liabilities	<u>18,736,191</u>
Invested in capital assets, net of related debt	(1,457,599)
Restricted	4,048,062
Unrestricted (deficit)	<u>(14,814,645)</u>
Total net assets	<u>\$(12,224,182)</u>

Changes in Net Assets

The Municipality's net assets decreased by \$ 1,504,191. Approximately 28 percent of the Municipality's total revenue came from taxes, while 24 percent resulted from grants and contributions, including federal aid. Charges for Services provided 2 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works, health and welfare services, community development and public safety. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Changes in Net Assets (Continued)

Condensed Statement of Activities
June 30, 2003 -

Program revenues:	
Charges for services	\$ 358,260
Operating grants and contributions	2,571,932
Capital grants and contributions	651,161
General revenues:	
Property taxes	2,646,598
Municipal license tax	1,062,747
Grants and contributions not restricted to specific programs	4,321,643
Other local taxes	1,413,691
Interest and investment earnings	68,403
Miscellaneous	<u>99,737</u>
Total revenues	<u>13,194,172</u>
Expense:	
General government	6,148,913
Public safety	821,492
Public works	3,101,970
Culture and recreation	551,402
Health and welfare	1,721,037
Economic development	460,692
Community development	1,550,897
Urban development	16,875
Education	35,725
Interest on long-term debt	<u>289,360</u>
Total expenses	<u>14,698,363</u>
Change in net assets	(1,504,191)
Net assets, beginning of year	<u>(10,719,991)</u>
Net assets, end of year	<u>\$(12,224,182)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$2,726,842, an increase of \$155,408 in comparison with the prior year. There are reservations of fund balance amounting to \$4,460,626. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$412,564), 2) to pay debt service (\$1,080,447), 3) to pay for capital projects (\$2,327,703) and 4) for other purposes (\$639,912).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a deficit of \$1,321,220.

The Financial Sector had a better financial performance in comparison to previous years and accordingly paid additional Municipal License Taxes to the Municipality.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2003, amounts to \$ 1,758,031, net of accumulated depreciation of \$ 339,751, leaving a net book value of \$ 1,418,280. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was \$1,249,850 in terms of net book value. Depreciation charges for the year totaled \$ 176,522.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2003 the Municipality has \$917,266 of unexpended proceeds from bond issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such Municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2003-2004 fiscal years.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

Commonwealth of Puerto Rico
Municipality of Salinas
Statement of Activities
For the Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 6,148,913	\$ 28,590	\$ 62,885	\$ -	\$ (6,057,438)
Public safety	821,492	265	277,309		(543,918)
Public works	3,101,970	267,081	455,244	651,161	(1,728,484)
Health and welfare	1,721,037	53,094	526,906		(1,141,037)
Culture and recreation	551,402	9,230	97,700		(444,472)
Economic development	460,692		462,290		1,598
Community development	1,550,897		689,598		(861,299)
Urban development	16,875				(16,875)
Education	35,725				(35,725)
Interest on long-term debt	289,360				(289,360)
Total governmental activities	\$ 14,698,363	\$ 358,260	\$ 2,571,932	\$ 651,161	(11,117,010)
General revenues:					
Property taxes					2,646,598
Municipal license tax					1,062,747
Other local taxes					1,413,691
Grants and contributions not restricted to specific programs					4,321,643
Interest and investment earnings					68,403
Miscellaneous					99,737
Total general revenues					9,612,819
Change in net assets					(1,504,191)
Net assets - beginning					(10,719,991)
Net assets - ending					\$ (12,224,182)

Commonwealth of Puerto Rico
Municipality of Salinas
Balance Sheet
Governmental Funds
June 30, 2003

	General Fund	Special Revenue Fund Local and State Grants	Special Revenue Fund Federal Grants	Capital Projects Fund Local and State Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 62,869	\$ 604,801	\$ 186,627	\$ 943,497	\$ -	\$ 135,994	\$ 1,933,788
Cash with fiscal agent			22,352	917,266	1,080,447		2,020,065
Accounts receivable:							-
Municipal license tax	32,406						32,406
Intergovernmental	113,963	379,438					493,401
Federal Grant			266,302				266,302
Due from other funds	483,269			637,570			1,120,839
Other	100,226						100,226
Total assets	\$ 792,733	\$ 984,239	\$ 475,281	\$ 2,498,333	\$ 1,080,447	\$ 135,994	\$ 5,967,027
Liabilities and Fund Balances							
Liabilities							
Accounts payable and accrued liabilities	\$ 313,370	\$ 10,304	\$ 55,691	\$ 70,630	\$ -	\$ 1,012	\$ 451,007
Due to other governmental entities	590,296						590,296
Due to other funds	637,570	334,023	38,881	100,000		10,365	1,120,839
Deferred revenues:							
Municipal license tax	449,286						449,286
Federal grant revenues			380,709			124,617	505,326
Other	123,431					-	123,431
Total liabilities	2,113,953	344,327	475,281	170,630	-	135,994	3,240,185
Fund balances:							
Reserved for:							
Encumbrances	412,564						412,564
Capital projects				2,327,703			2,327,703
Other purposes		639,912					639,912
Debt service fund					1,080,447		1,080,447
Unreserved:							
Undesigned	(1,733,784)						(1,733,784)
Total fund balances (deficit)	(1,321,220)	639,912	-	2,327,703	1,080,447	-	2,726,842
Total liabilities and fund balances	\$ 792,733	\$ 984,239	\$ 475,281	\$ 2,498,333	\$ 1,080,447	\$ 135,994	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	1,418,280
Accrual basis of accounting account receivables used in governmental activities are not financial resources and, therefore, are not reported in the funds	247,541
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(16,616,845)
Net assets of governmental activities	\$ (12,224,182)

Commonwealth of Puerto Rico
Municipality of Salinas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	General Fund	Special Revenue Fund Local and State Grants	Special Revenue Fund Federal Grants	Capital Projects Fund Local and State Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
Property taxes	\$ 2,167,955	\$ -	\$ -	\$ -	\$ 478,642	\$ -	\$ 2,346,597
Municipal license taxes	1,044,383						1,044,383
Licenses, permits and other local taxes	1,193,124						1,193,124
Charges for services	369,266						369,266
Intergovernmental	4,384,528	752,730	18,737	951,160			6,107,155
Rent of property	34,429	97,700					132,129
Fines and forfeitures	265						265
Interest	68,403						68,403
Federal grants			1,031,500			287,819	1,319,319
Miscellaneous	37,680	4,828	23,344	138			65,990
Total revenues	9,300,033	855,258	1,073,581	951,298	478,642	287,819	12,946,631
Expenditures							
Current:							
General government	4,047,856			283		23,509	4,071,648
Public safety	506,341	199,499	103,912				809,752
Public works	2,559,414	70,682	68,832	1,730,539			4,429,467
Health and welfare	1,138,375	84,764	211,239			264,310	1,698,688
Culture and recreation	326,267	224,256					550,523
Economic development		460,692					460,692
Community development			689,598	861,202			1,550,800
Urban development				16,875			16,875
Education	35,668						35,668
Debt service:							
Principal	158,750				214,000		372,750
Interest	107,130				182,230		289,360
Total expenditures	8,879,801	1,039,893	1,073,581	2,608,899	396,230	287,819	\$ 14,286,223
Excess (deficiency) of revenues over (under) expenditures	420,232	(184,635)	-	(1,657,601)	82,412	-	(1,339,592)
Other financing sources (uses)							
Transfers in		135,000					135,000
Transfers out	(135,000)						(135,000)
Long-term debt issued				1,495,000			1,495,000
Total other financing sources (uses)	(135,000)	135,000	-	1,495,000	-	-	1,495,000
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	285,232	(49,635)	-	(162,601)	82,412	-	155,408
Fund balance (deficit), beginning, as restated	(1,606,452)	689,547		2,490,304	998,035		2,571,434
Fund balance (deficit), ending	\$ (1,321,220)	\$ 639,912	\$ -	\$ 2,327,703	\$ 1,080,447	\$ -	\$ 2,726,842

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

Commonwealth of Puerto Rico
Municipality of Salinas
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$ 155,408

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 and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 1,426,372

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (176,522)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds. (2,464,542)

Some expenses reported in the Governmental Funds require the use of current financial resources and, therefore, are not reported as expenditures in Statement of Activities. 429,802

Some revenues reported in the Statement of Activities do not provide current financial resources in Governmental Funds. 247,541

Change in landfill accrual -

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments. (1,122,250)

Change in Net Assets of Governmental Activities \$ (1,504,191)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Salinas** (the Municipality) was founded on the year 1841. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As part of the implementation of GASB Statement No. 34, the Municipality adopted a prospective reporting of its general infrastructure assets. This result in the recognition of the costs incurred during the fiscal year ended June 30, 2003 for the acquisition of infrastructure assets (e.g., roads, bridges, sidewalks). The Municipality expects to report the retroactive historical costs of all of its infrastructure assets during the fiscal year beginning on July 1, 2003.

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, which rescinds some and modifies other financial statement disclosure requirements. As part of the implementation of Statement No. 34, the Municipality revised the classification of its funds. Accordingly, beginning fund balances were restated as explained in Note 13.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-typed activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Special Revenue Fund - Local and State Grants- is the accounting entity in which revenues derived from local funds, state or other restricted revenue source is accounted for the uses and limitations specified by Municipality ordinances or state statutes.

Special Revenue Fund - Federal Grants- is the accounting entity in which revenues derived from federal grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Capital Project Fund - Local, State and Federal Grants - is the accounting entity in which revenues derived from local funds, state and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Fund - is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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

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

Special Revenue Fund – Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Funds- Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

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

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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

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

Property taxes, franchise taxes, licenses, rent, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.



ESTADO LIBRE ASOCIADO DE PUERTO RICO

Municipio de Salinas

OFICINA DEL ALCALDE

Apartado 1149

Salinas, Puerto Rico 00751

Tel. (787) 824-3060

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UNIDAD DE CORREO

Hon. Abraham López Martínez
Alcalde

August 9, 2004

Ms. Barbara Sanfiorenzo-Zarragoza, Esq.
Commissioner
O.C.A.M.
PO Box 70167
San Juan, PR 00936-8167

Dear Ms. Sanfiorenzo-Zarragoza:

**SUBJECT: RESPONSE TO SINGLE AUDIT REPORT FYE 6/30/2003
CDBG-STATE'S PROGRAM CFDA 14.228**

We are indeed, please to submit this correspondence, and attached evidentiary material, as our formal response to those administrative failures, noted within the above referenced Single Audit Report, as it relates to our locally administered Community Development Block Grant. Additionally, we have attached those corrective actions, which have since been initiated so as to preclude similar findings in the future.

While every attempt was made to properly respond to each individual finding, should either you and/or any member of your Program Staff have any questions, concerns or assistance in reviewing the same, please feel free to contact Mr. Ramón Padilla, Federal Funds Director, directly on 787-824-5310 or e-mail: hud069@coqui.net, or my office at 787-824-3830.

You may rest assured in knowing, that we are deeply appreciative of being a participant within this same program, and as a result, will demonstrate this same appreciation by attempting to carry out its mandates in total compliance with existing applicable regulations.

Letter to Ms. Barbara Sanfiorenzo-Zarragoza, Esq.
Commissioner - OCAM
August 9, 2004
Page 2

Needless to say, I continue to be deeply appreciative to both you and your respective staff for the continued cooperation and assistance offered our local Program staff.

Sincerely,


ABRAHAM LOPEZ MARTINEZ
Mayor

attachments

cc: López-Vega, CPA, PSC
1686 Parana Street
San Juan, Puerto Rico 00926

Mr. Dennis Pérez
City Manager
Municipality of Salinas

Ms. Omayra Santiago Bähr
Internal Auditor
Municipality of Salinas

Mr. Domingo Torres
Director
Department of Finance
Municipality of Salinas

Mr. Ramón Padilla
Director
Department of Federal Programs
Municipality of Salinas

Commonwealth of Puerto Rico
Municipality of Salinas
Office of Federal Programs

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COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM
SINGLE AUDIT FY 2003
CORRECTIVE ACTION PLAN

Single Audit FY 2003 Corrective Action Plan

Major Federal Award Program Findings

Finding Reference 02-XXXXXXX Davis-Bacon Act

Federal Agency: *U.S. Department of Housing and Urban Development
Community Development Block Grant-State Program
Pass through State – Office of Commissioner of Municipal Affairs
CFDA 14.228*

Criteria:

The audit report for the year ended June 30, 2003 identified that the Municipality was not in compliance with the Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).

➤ **Statement of Conditions**

During the Davis-Bacon test for the construction projects 99-FD-56-004 and 01-FD-56-004, respectively, the following was observed:

- a. For project 01-FD-56-004, the Municipality did not perform adequately the monitoring system developed to ensure contractors compliance with payment of prevailing wage rate to employees.
- b. For project 01-FD-56-004, the contractor and subcontractor's labor's interviews were not conducted.
- c. For project 01-FS-56-004, the weekly payrolls were not requested to be reviewed by the municipal employee responsible of applying monitoring procedures.

➤ **Cause of Condition**

The Municipality did not apply all monitoring procedures developed to test applicable contractors with respect to payment of prevailing wages.

Response:

The file for project 01-FD-56-004 has been reviewed and this same file has been reconciled so that it will be in compliance with the Davis-Bacon Act. Furthermore, the Director of the Municipal Office of Federal Programs has been instructed to develop an extensive training protocol to address this issue. Mandatory training is being scheduled and the Director will ensure that the staff member assigned to this task is adequately trained on the monitoring requirements as well as requiring the contractor to provide payroll records for all employees working on the projects to ensure the Davis-Bacon Act is being adhered to. A list of all contractors who worked on such contracts will be maintained.

Status:

Corrective action is in progress.

Completion Date:

Estimated, January 1, 2005.

Finding Reference 02-XXXXXXX Cash Management

Federal Agency: U.S. Department of Housing and Urban Development
Community Development Block Grant-State Program
Pass through State – Office of Commissioner of Municipal Affairs
CFDA 14.228

Criteria:

Code of Federal Regulations 24, Subpart I, Section 570.489(c) requires a cash management system in order to minimize the time elapsing between the transfer of funds from the pass through grantor and disbursements made by the grantee.

➤ **Statement of Condition**

The audit report for the year ended June 30, 2003 identified that the Municipality requested funds that were not disbursed on a reasonable lapse of time.

➤ **Cause of Condition**

The Municipality did not maintain appropriate cash management procedures in order to request funds from federal agencies only for immediate needs.

Response:

The Federal Funds Director has been instructed to develop a staff training protocol that will address this issue. Mandatory training is being scheduled for the Federal Funds staff responsible for doing the drawdown of funds. This will result in the minimization of the time elapsed between the transfer of funds from the Federal entity and the disbursements made by the Municipality in an efficient manner. The reports generated will be simplified to ensure that they meet the needs of the users. Furthermore, the budget will be revised and the drawdown request will be compared to the actual checks that are issued and/or on a need basis. This eliminates the possibility of receiving funds that will not be disbursed immediately by the office in accordance with established regulations, namely OMB Common Rules, Subpart C, and Section 85.20(b) (7).

Status:

Correction action is in progress.

Completion Date:

Estimated, December 1, 2004

Finding Reference 02-XXXXXX Procurement and Suspension and Debarment

***Federal Agency: U.S. Department of Housing and Urban Development
Community Development Block Grant – State's Program
Pass through State – Office of Commissioner of Municipal Affairs
CFDA 14.228***

Criteria:

According to the Code of Federal Regulations 24, Part 570.489(g) requires that all purchase orders and contracts include all clauses necessary by federal statutes, executive orders and implementing regulations. The Code of Federal Regulations 24, Subpart C, Section 85.36(l)(1-13), states the provisions that all contracts must include.

➤ **Statement of Condition**

In the contract provisions test, the following was observed:

- a. One (1) contract did not include a provision for compliance with the Davis-Bacon Act;
- b. One (1) contract did not include a provision for compliance with sections 103 and 107, respectively, of the Contracts Work Hours and Safety Standards Act;
- c. One (1) contract did not include a provision for granting revision by the GAO or other federal agency, of the books and other activities;
- d. One (1) contract did not include a provision for compliance with the Clean Air Act and Water Act;
- e. One (1) contract did not include provisions for compliance with the Energy Policy and Conservation Act;
- f. One (1) contract did not include a provision for compliance with the "Anti-kickback" Act (the contracts for Construction and Repairs);
- g. One (1) contract did not include a provision for retention of all required records for three years;

➤ **Cause of Condition**

The Municipality did not maintain appropriate procurement standard procedures in order to assure that contracts include all the provisions required by Federal Statutes, Executive Orders and implementing procedures.

Response:

The corrective action to update any and all contract models accordingly so that they can be in compliance with establish Federal Regulations will be undertaken by the Municipal Secretary's Office, since this office is empowered by State Law to oversee all contractual agreements entered into by the Municipality. The Director of the Municipal Secretary's Office has been instructed to discuss with the Federal Funds Office Director in order to be appraised of all the federal regulations and statues required in the contracts and/or amended all contractual agreements which have been entered into by the Municipality and financed by federal assistance so that they may be in total compliance with federal regulations.

Status:

Correction action is in progress.

Completion Date:

Estimate January 1, 2005.

Finding Reference 02-XXXXXX Reporting

Federal Agency: *U.S. Department of Housing and Urban Development
Community Development Block Grant – State's Program
Pass through State – Office of Commissioner of Municipal Affairs
CFDA 14.228*

Criteria:

The Code of Federal Regulations 24, Subpart I, Section 570.489(d)(1), state that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirements must be available for federal inspection and must, at a minimum have the following:

- 1) Be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions;
- 2) Ensure that funds received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart;
- 3) Ensure funds under this subpart are not used for general expenses required to carryout other responsibilities of State and Local governments.

➤ **Statement of Condition**

During our reporting test, the following exceptions were observed on the Financial Quarterly Reports for the fiscal year 2002-2003:

- a) The Municipality did not maintain evidence that indicated that the Financial Quarterly Report ended December 31, 2002 was submitted on a timely basis.
- b) For the Financial Quarterly Report ended on June 30, 2003, cash outlays per the general ledgers, which disagree with the cash outlays, reported in the quarterly reports. The following summaries demonstrate the differences between the amounts presented in the Financial Quarterly Report and the amounts presented in the programs General Ledger:

Cash Disbursements Accounting Number	Amount per Quarterly Report	Amount per General Ledger	Difference
98-FD-006 (501)	\$102,015.27	\$80,826.50	\$21,188.77
99-FD-ADM (709)	2,155.20	1,510.60	644.60
99-FD-ADM (720)	3,328.00	2,688.00	640.00
99-FD-001 (505)	47,500.00	0.00	47,500.00
00-FD-ADM (701)	53,438.23	46,224.82	7,213.41
00-FD-ADM (703)	3,621.62	347.75	3274.12
00-FD-ADM (706)	279.10	96.55	182.55
00-FD-ADM (707)	4,500.00	2,700.00	1,800.00
00-FD-ADM (709)	2,895.55	1,693.56	1,202.39
00-FD-ADM (720)	2,032.50	1,328.50	704.00
00-FD-001 (501)	195,700.00	127,170.00	68,530.00
00-FD-002 (603)	149,703.02	148,616.22	1,086.80

➤ **Cause of Condition**

The Municipality did not maintain an adequate financial management system to ensure accurate, current, and complete disclosure of the financial results of financially assisted activities.

Response:

The Finance Department will assist in the reconciliation of the amounts reported. Moreover, the Federal Funds Director has been instructed to establish an internal review group to evaluate internal policies and procedures as they relate to the accounting records, which adequately identify the source and application of funds provided for financially assisted activities through the CDBG State Program. The review process will reconcile the accounting records so that they contain all the information pertaining to grant and/or sub-grants awards, authorizations, obligations, un-obligated balances, assets, liabilities, outlays or expenditures and income. This will be accomplished with the guidance and assistance from the Finance Director. Furthermore, the Federal Funds Office will provide the Finance Department a copy of the quarterly reports prior to submission. With the assistance provided by the Finance Department, the reported amount will be reconciled and discrepancies will be discussed so that corrective action will be taken. This process will permit that all reports are prepared and submitted, as per grant agreements in compliance with established deadlines in an efficient manner.

Status:

Corrective action is in progress.

Completion Date:

Estimate June 30, 2005.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

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

E. Assets, liabilities and net assets

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

Cash with fiscal agent in the debt services fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

- 2. Receivables and payables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

4. **Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	40 years	\$1
Infrastructure	40 years	\$1
Works of art	10 years	\$1
Vehicles	5 years	\$1
Furniture and fixtures	5 years	\$25
Machinery and equipment	3 to 5 years	\$25

5. **Long-term obligations-** The liabilities reported in the government-wide financial statements include to general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

7. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.
8. **Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:
 - a. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
 - b. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
 - c. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.
 - d. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
9. **Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:
 - a. **Operating Transfers-** Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
 - b. **Intra-Entity Transactions-** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
10. **Risk financing-** The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2003 amounted to approximately \$157,036. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$133,563 for workers compensation insurance covering all municipal employees.

11. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this reconciliation are as follows:

		<u>Total Net Assets – Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$1,418,280	
Deduct:		
Bonds Payable	(2,210,879)	
Notes Payable	<u>(665,000)</u>	
		(1,457,599)
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		2,327,703
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service		1,080,447
<u>Net assets restricted for other purposes</u>		
Special Revenue - fund balance restricted for other purposes		\$639,912
<u>Net assets unrestricted (deficit)</u>		
General fund – total fund balance:	\$(1,321,220)	
Add:		
Accrual Basis account receivables	247,541	
Deduct:		
Bond Payables	(3,403,750)	
Compensated absences debt	(749,529)	
Treasury Department-Income Tax	(93,153)	
Landfill Obligation	(4,466,972)	
CRIM – Property Tax Payable	(195,283)	
CRIM Law 42	<u>(1,059,555)</u>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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

		<u>Total Net Assets - Governmental Activities</u>
Aqueduct and Sewer Authority	(270,000)	
CRIM - Law 146	(872,137)	
Claims and judgments debt	<u>(2,630,587)</u>	<u>(14,814,645)</u>
Total net assets - governmental activities		<u>\$(12,224,182)</u>

2. DEPOSITS

Under Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$62,869, \$604,801, \$186,627, \$943,497, in the general fund, special revenue fund - local grants, special revenue fund - federal grants, capital project fund - local and state grants, respectively, were fully collateralized at June 30, 2003. In the other governmental funds there were deposits with commercial banks of approximately \$135,994, that were fully collateralized.

The deposits at GDB of approximately \$22,352, that is restricted principally for special revenue fund-federal grants, the \$917,266 that is restricted principally for capital projects in the capital project fund - local and state grant, and the \$1,080,447 in the debt service fund are unsecured and collateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. *Municipal License Tax*- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 24 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2003, the tax rates were as follows:

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

3. RECEIVABLES (CONTINUED)

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 24. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2003, net of allowance for uncollectibles.

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

- B. *Intergovernmental Receivables*- Intergovernmental receivables in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA") resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes, and the amounts due from the Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico resulting from the excess of current year property tax collections over current year advances. The amounts receivable from governmental entities are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Electric Power Authority ("PREPA")	\$67,200
Municipal Revenue Collection Center ("CRIM")	<u>46,763</u>
Total	<u>\$113,963</u>

Intergovernmental receivable in special revenue fund - federal grants, represent expenditures incurred not yet reimbursed by the Federal government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Child Care Development Block Grant	33,512
Community Development Block Grant- State program	<u>232,790</u>
Total	<u>\$266,302</u>

Intergovernmental receivable in special revenue fund - local and state grants, represent expenditures incurred not yet reimbursed by local government. Following is a detail of the intergovernmental receivable:

<u>Program Description</u>	<u>Amount</u>
Public School Improvement Office (OMEPI)	\$6,000
ASIFAL Consortium	166,746
Department of Labor	<u>206,692</u>
Total	<u>\$379,438</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2003, and interfund transfers during the fiscal year ended at June 30, 2003, are summarized as follows:

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund- Local and State Grant	Reimbursable Expenditures	\$334,023
General Fund	Special Revenue Fund- Federal Grant	Reimbursable Expenditures	38,881
General Fund	Capital Projects Fund- Local and State Fund	To finance new capital projects	100,000
General Fund	Other Governmental Fund	Reimbursable Expenditures	10,365
Capital Projects Fund- Local and State Grants	General Fund	Loan for operating purposes	<u>637,570</u>
Total			<u>\$1,120,839</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund - Federal Grants	To create a Culture and Recreation Fund	<u>\$135,000</u>
Total			<u>\$135,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2003, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2003</u>
Capital asset, not being depreciated:				
Construction in progress	\$ _____	\$669,131	\$ _____ -	\$669,131
Total capital assets not being depreciated	_____	669,131	_____ -	669,131
Capital assets, being depreciated:				
Equipment	\$191,845	\$74,870		\$266,715
Furnishing	46,458	7,923		54,381
Computers	40,456	9,348		49,804
Vehicles	52,900	665,100	_____ -	718,000
Total capital assets being depreciated	\$331,659	\$757,241	_____ -	\$1,088,900
Less accumulated depreciation for:				
Equipment	(102,694)	(40,834)		(143,528)
Furnishing	(24,479)	(10,035)		(34,514)
Computers	(29,181)	(8,104)		(37,285)
Vehicles	(6,875)	(117,549)	_____ -	(124,424)
Total accumulated depreciation	(163,229)	(176,522)	_____ -	(339,751)
Total capital assets being depreciated, net	\$168,430	\$580,719	_____ -	\$749,149
Governmental activities capital assets, net	<u>\$168,430</u>	<u>\$1,249,850</u>	_____ -	<u>\$1,418,280</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

General government	\$42,525
Public safety	11,740
Public works	98,875
Culture and recreation	879
Health and welfare	22,349
Community development	97
Education	<u>57</u>
Total depreciation expense-governmental activities	<u>\$176,522</u>

6. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

On December 31, 1992 the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2003, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$195,283 and is payable as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2004	\$27,898
2005	27,898
2006	27,898
2007	27,898
2008	27,898
2009-2014	<u>55,793</u>
Total	<u>\$ 195,283</u>

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. On October 11, 2001, Public Law 146 was enacted to amend Public Law 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2002, Public Law 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law 42 enacted on January 26, 2000.

On June 26, 1997, Public Law 21 was enacted which authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money. A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

6. PROPERTY TAXES (CONTINUED)

Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The government-wide statement of net assets includes an outstanding debt balance of \$1,059,555 and \$872,137 related to Law 42 and Law 146 respectively. In addition, exists a debt balance of \$93,153 which is retained by CRIM to the municipality related to prior year income tax debt.

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

The annual tax rate is 8.33% for real property and 6.33% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.50% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

7. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of approximately \$449,286 in the general fund relates to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

7. DEFERRED REVENUES (CONTINUED)

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

<u>Program Description</u>	<u>Amount</u>
Section 8 Housing Choice Voucher	\$124,617
Community Development Block Grant- State program	194,069
Public Safety and Community Policing Grant	1,010
Juvenile Justice and Delinquency Prevention	64
Emergency Management Assistance	5,604
Public Assistance Grant-Georges	20,150
Public Assistance Grant- Hortense	2,201
Child Care Development Block Grant	803
Special Program for the aging - Tittle III	35,194
Nutrition Service- Justice Department	61,850
Urban Development Action plan	10,613
Federal Emergency Management Assistance	18,979
Community Services Block Grant	<u>30,172</u>
Total	<u>\$505,326</u>

8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2003, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$4,392,379	\$1,495,000	\$(272,750)	\$5,614,629	\$307,750
Notes Payable	765,000		(100,000)	665,000	115,000
Income Tax - Treasury Department	185,553		(92,400)	93,153	93,153
Property Tax Debt - CRIM	223,181		(27,898)	195,283	27,898
Labor Department	31,843		(31,843)	-	-
Compensated Absences	698,417	114,654	(63,542)	749,529	58,000
Landfill obligation	4,466,972			4,466,972	-
CRIM Debt-Ley 42	1,146,243		(86,688)	1,059,555	86,688
CRIM Debt-Ley 146	872,137			872,137	-
Puerto Rico Aqueduct and Sewer Company		290,000	(20,000)	270,000	60,000
Claims and judgments	<u>678,129</u>	<u>2,059,889</u>	<u>(107,431)</u>	<u>2,630,587</u>	<u>-</u>
Total	<u>\$13,459,854</u>	<u>\$3,959,543</u>	<u>\$(802,552)</u>	<u>\$16,616,845</u>	<u>\$748,489</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

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

2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for approximately \$1,495,000. Bonds payable outstanding at June 30, 2003 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2003</u>
1982-Series	1-1-2008	600,000	5.00%	\$186,000
1985-Series	1-1-2010	1,092,000	6.00%	529,879
1992-Series	10-1-2012	2,300,000	5.00% to 8.25%	1,478,750
1997-Series	7-1-2017	2,240,000	5.00% to 8.00%	1,925,000
2002-Series	7-1-2027	1,495,000	5.00% to 6.50%	<u>1,495,000</u>
 Total general obligation bonds				 <u>\$5,614,629</u>

These bonds, except the 1992 Series bond, are payable from the ad valorem property tax of 1.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$307,750	\$336,772
2005	333,500	387,148
2006	361,750	361,784
2007	381,500	334,786
2008	407,500	305,993
2009-2013	1,792,629	1,069,558
2014-2018	1,145,000	512,062
2019-2023	375,000	229,938
2024-2028	<u>510,000</u>	<u>87,100</u>
Total	<u>\$5,614,629</u>	<u>\$3,625,141</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

3. **Notes Payable-** The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. 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, 2003</u>
2002-Series	7-1-2007	\$395,000	5.00% to 3.54%	\$340,000
2002-Series	7-1-2008	370,000	5.00% to 7.00%	325,000
Total notes payable				<u>\$665,000</u>

These notes except 2002 series, are payable from the ad valorem property tax of 1.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$115,000	\$30,273
2005	125,000	26,735
2006	135,000	20,613
2007	140,000	13,929
2008	150,000	3,953
2009-2013		
2014-2018		
2024-2028	=	=
Total	<u>\$665,000</u>	<u>\$95,503</u>

4. **Property Tax Debt-** These amounts represent the balance owned to the Treasury Department and to the Municipal Revenue Collection Center (CRIM) at June 30, 2003, as described in Note 6, from property tax advances in excess of actual collections and other property tax debts.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

8. LONG-TERM LIABILITIES (CONTINUED)

5. **Compensated absences-** The government-wide statement of net assets includes approximately \$323,685 of accrued sick leave benefits, and approximately \$425,844 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
6. **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 to 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. Based on this study, the Municipality has recognized \$2,996,972 as the Municipality's estimated current cost for landfill closure as of June 30, 2003. The preliminary annual estimate of post closure costs has been assessed approximately to be \$1,470,000 for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. As of June 30, 2002, the Municipality's landfill facilities have been active. The balance of closure and post-closure costs of \$2,996,972 and \$1,470,000, respectively, are reported in the government-wide statement of net assets.
7. **Due to agencies-** The municipality signed a debt agreement with Puerto Rico Aqueducts and Sewer Company for five year period ending in December, 2007 to liquidate a debt amounting to \$290,000 with a monthly payment of \$5,000. At June 30 2003 the debt balance amounted to \$270,000.

9. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. PENSION PLAN (CONTINUED)

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

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

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

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2003 amounted to approximately \$199,694 and \$223,826, respectively.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

9. PENSION PLAN (CONTINUED)

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

10. RISK MANAGEMENT

The Finance Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Finance Department Division compiles the information of all property owned and its respective market value. After evaluating this information, the Finance Department Division submits the data regarding the Municipality's properties to the Public Insurance Department at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

11. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits 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 \$2,630,587 for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as 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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

12. OMISSION OF CERTAIN CAPITAL ASSETS

The management has not recorded certain capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

As the release of the financial statements, the Municipality began the implementation of the new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34.

13. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balance (Deficit) for General Fund has been restated by \$37,071 to properly presents the previously reported fund balance at June 30, 2002. The restatement is mainly due to the recognition of interfund transactions pending at year end.

The beginning Fund Balance for Debt Service Fund has been restated by \$18,821 to properly present the previously reported fund balances at June 30, 2002. The restatement is mainly due to the recognition of the amount due from CRIM related to the Final Liquidation of the fiscal year 2001-2002.

14. SUBSEQUENT EVENTS

On August 16, 2003, the Municipality of Salinas authorized the issuance of a special obligation bond for the amount of \$385,000, for payment of debt with the Department of Treasury. Repayment of the bond is scheduled from July 2004 through July 2029.

On August 20, 2003, the Municipality readjusted the operational budget for 2003-2004, to include \$526,928, from Judicial Claim against Puerto Rico Electric Power Authority (PREPA), and increase budgetary expenditures.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)
YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(See Note 1)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$5,236,677	\$5,236,677	\$5,322,065	\$85,388
Municipal license tax	850,000	850,000	1,044,383	194,383
Licenses, permits and other local taxes	953,300	953,300	1,195,549	242,249
Charges for service	495,000	495,000	63,038	(431,962)
Intergovernmental	995,795	995,795	1,045,836	50,041
Rent of property	109,784	109,784	32,003	(77,781)
Fines and forfeitures	2,475	2,475	265	(2,210)
Interest	75,000	75,000	68,403	(6,597)
Miscellaneous	113,627	113,627	800,649	687,022
Operating transfer from other fund				
Total revenues	<u>8,831,658</u>	<u>8,831,658</u>	<u>9,572,191</u>	<u>740,533</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	3,120,417	3,651,470	3,858,693	(207,223)
Public safety	574,197	563,362	506,450	56,912
Public works	2,389,507	2,345,159	2,319,465	25,694
Health and welfare	1,917,949	1,465,785	1,327,944	137,841
Culture and recreation	362,233	363,057	327,835	35,222
xEconomic development				
Community development				
Urban development				
Education	200,800	41,270	34,087	7,183
Operating transfer to other fund	<u>266,555</u>	<u>401,555</u>	<u>400,880</u>	<u>675</u>
Total expenditures, encumbrances and other financing uses	<u>8,831,658</u>	<u>8,831,658</u>	<u>8,775,354</u>	<u>56,304</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)				
	<u>-</u>	<u>-</u>	<u>746,837</u>	<u>746,837</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND (CONTINUED)
(SEE NOTES TO BUDGETARY COMPARISON)
YEAR ENDED JUNE 30, 2003

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule \$ 9,572,191

Differences-budget to GAAP:

Reversal of prior year Account Receivables from CRIM liquidation (272,158)

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances \$ 9,300,033

Uses/outflows of resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule \$ 8,775,354

Differences-budget to GAAP:

Nonbudgeted Transfer Out 20,235

Prior year encumbrances paid in current year and recognized as expenditures in prior year budgetary basis 299,967

F/S.

Current year encumbrances (204,186)

Sentences of judgments dictated during or before June 30, 2003 and not budgeted by Municipality 123,431

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances \$9,014,801

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
YEAR ENDED JUNE 30, 2003

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund.

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2003 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2003.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program :			
Section 8 Housing Choice Voucher	14.871		\$ 287,819
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioners of Municipal Affairs: Community Development Block Grant - State Program			
	14.228		
		98-FD-56	169,889
		99-FD-IP-56	139,225
		00-FD-56	81,063
		01-FD-56	245,817
		02-AB-56	
		02-FC-56	53,605
			<u>977,418</u>
Total U.S. Department of Housing and Urban Development			<u>977,418</u>
U.S DEPARTMENT OF JUSTICE:			
Direct Program:			
Local Law Enforcement Block Grant	16.592		<u>90,000</u>
Total U.S. Department of Justice			<u>90,000</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency:			
Emergency Management Performance Grant	83.552	Not Available	2,323
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Public Assistance Grants	83.544	1247-DR-PR	59,857
Total U.S. Federal Emergency Management Agency			<u>62,180</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico governor's Office (Elderly Office):			
Special Programs for Aging - Title III, Part B - Grant For Supportive Services and Senior Centers	93.044		3,394
Special Programs for Aging - Title III, Part C - Nutrition Services	93.045		19,979
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ADFAN):			
Community Services Block Grant	93.569	Not Available	69,487

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
—Child Care and Development Block Grant	93.575		<u>96,861</u>
Total U.S. Department of Health and Human Services			<u>189,721</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,319,319</u>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2003

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*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

Description	Special Revenue Fund Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$1,031,500	\$287,819	\$1,319,319
Non federal programs Expenditures	42,081	-	42,081
Total expenditures in the fund financial statements	\$1,073,581	\$287,819	\$1,361,400



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- Puerto Rico Society of Certified Public Accountants

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

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

We have audited the basic financial statements of the **Municipality of Salinas** as of and for the year ended June 30, 2003, and have issued our report thereon dated December 30, 2003, which was unqualified at the fund financial statements level and adverse at the government-wide financial statements level because we were unable to audit the capital assets account balances and transactions. Except as discussed in the preceding sentence, 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Salinas's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Salinas's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items 03-01 through 03-05.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe items 03-01 of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Municipality of Salinas in a separate letter dated December 30, 2003.

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

López-Vega, CPA, PSC
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 30, 2003

Stamp No. 1942273 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133**

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

Compliance

We have audited the compliance of the **Municipality of Salinas** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The **Municipality of Salinas's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Salinas's** management. Our responsibility is to express an opinion on the **Municipality of Salinas's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Salinas's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality of Salinas's** compliance with those requirements.

In our opinion, the **Municipality of Salinas** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, 03-06 through 03-09.

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-
133(CONTINUED)**

Internal Control Over Compliance

The management of the Municipality of Salinas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality of Salinas's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality of Salinas's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-06 through 03-09.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider item 03-09 to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the Municipality of Salinas in a separate letter dated March 12, 2004.



INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-
133(CONTINUED)

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

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 12, 2004

Stamp No. 1942274 of the Puerto Rico
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was affixed to the record copy of this report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2003

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified, except for adverse for government-wide financial statements

Internal control over financial reporting:
 Material weakness identified? Yes X No
 Reportable conditions identified not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes No X

Federal awards

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

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant – State's Program

Dollar threshold used to distinguish between Type A and Type B programs Auditee qualified as low-risk auditee? \$ 300,000 Yes No X

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-01
Requirement	Fixed\ Capital Assets and Expenditures – Subsidiary Ledger
Statement of Condition	The Municipality has not maintained a complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.
Criteria	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Assets and that these assets must be depreciated during its useful life.
Cause of Condition	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
Effect of Condition	The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
Recommendation	We recommend that the Municipality should continue the process that began during the fiscal year 2002-2003 to comply with the requirements of the GASB Statement No. 34.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference 03-02

Requirement	Financial Reporting - Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds) and Account Groups.
Criteria	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality's accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-03
Requirement	Expenditures for Goods and Services and Accounts Payable - Purchasing
Statement of Condition	<p>During our examination of the Municipality's procedures related to the purchasing and receiving process we examined twenty (20) CDBG State Program disbursement vouchers and forty five (45) general fund disbursement vouchers. We found the following exceptions:</p> <ul style="list-style-type: none">a. Five (5) CDBG State Program disbursement vouchers were not marked as paid.b. In Two (2) CDBG State Program disbursement vouchers the requisition was not signed by the Purchase Officer.c. Two (2) CDBG State Program disbursement vouchers did not include the requisition form.d. Eighteen (18) General Fund disbursement vouchers were not marked as paid.e. Nine (9) General Fund disbursement vouchers did not include evidence of the required quotations.f. Twelve (12) General Fund disbursement vouchers did not include a certification which includes the name, title and signature of the person who performed the procurement process.g. Ten (10) General Fund disbursement vouchers did not include the receiving report duly signed by the Municipal employees who have knowledge of the receiving of goods or services.h. In sixteen (16) General Fund disbursement vouchers the purchase order was issued after receiving the goods or services.i. Nine (9) General Fund disbursement vouchers did not include the original invoice duly signed by the supplier.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference 03-03 (Continued)

- j. Fifteen (15) General Fund disbursement voucher did not include the Mayor's signature or his Authorized Representative.
- k. The original invoice was not signed by the supplier in one (1) disbursement voucher.
- l. Two (2) General Fund disbursement vouchers did not include the original invoice.
- m. One (1) General Fund disbursement vouchers did not include requisition.
- n. One (1) General Fund disbursement vouchers did not include evidence of the announcement publication.

Criteria The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in Chapter four (4) that the Finance Director will be responsible to account and prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Also, the Chapter eight (8) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids or quotations for the purchase of goods or services.

Cause of Condition The Municipality internal control failed to assure that all transactions include all the required documentation as required by law.

Effect of Condition The Municipality is not in compliance with Chapter Four (4) and Chapter (8) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference 03-03 (Continued)

Recommendation We recommend that the Municipality should improve its internal control procedures in order to assure that a disbursement voucher contains all supporting documents before the payment is made. Also, we recommend that the Municipality should improve its procedures to assure that at least three quotations should be requested for all purchase of goods or services that do not exceed \$ 10,000 and construction contracts that do not exceed \$ 40,000 or realize formal bids for purchases that exceed that limits.

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

Finding Reference	03-04
Requirement	Expenditures for Goods and Services and Account Payables – Purchasing
Statement of Condition	During our examination of the Municipality's procedures related to the formal procurement process we noted that the Municipality did not maintain adequate files for formal bids adjudicated during the fiscal year. Also, we request the general bid for fiscal year 2002-2003 and we did not obtain documents corresponding to the items 1,2,3,4 and 8.
Criteria	The Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids for the purchase of goods or services.
Cause of Condition	The Municipality's did not maintain adequate internal controls to assure that all required documents has been retained in a file (bid and contract files) as evidence of compliance with the procurement requirements.
Effect of Condition	The Municipality noncompliance with the Chapter Eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	We recommend the Municipality to establish adequate internal control and procedures in order to assure that formal bid files includes all required documents. Also, we recommend retaining in contract files all documents required by Law or Regulation prior to any contract execution in order to demonstrate compliance with procurement requirements.
Management Response	Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference	03-05
Requirement	Payroll and Related Liabilities - Payroll Preparation and Timekeeping
Statement of Condition	<p>We performed a payroll test and examined a sample of sixty (60) personnel files. The following summarize the exceptions noted:</p> <ul style="list-style-type: none">a. In twenty four (24) instances the files did not include evidence about the gross wage of the employees.b. In nineteen (19) instances the files did not include evidence about the employee's position.c. In two (2) instances the employee position per payroll report did not agree with the employee's position per documents in the employee's file.d. In twenty seven (27) instances the Immigration Form (I-9) was not included in the employee's file.e. In one (1) instance the employee did not appear in the accrue vacation and sick leave schedule prepared by the Municipality.f. In twenty four (24) instances the 499-R4 Form was not included in the employee's file.
Criteria	<p>The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee files. Also, Article 11.023 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated employee files.</p>
Cause of Condition	<p>The Municipality's internal control procedures failed to assure the proper preparation and payment of payroll, the correctness of compensated absences balances, and the maintenance of updated employee files.</p>
Effect of Condition	<p>The Municipality did not maintain an adequate control over the personnel files and the compensated absences records.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

Finding Reference 03-05 (Continued)

Recommendation We recommend the Municipality to improve its procedure to assure that the Human Resource Department maintains updated employees files. We also recommend that the Human Resources Department should actualize and maintain up to date compensated absences and assistance records related to each employee.

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-06
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs
Requirement	Cash Management
Statement of Condition	During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.
Criteria	Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	The Municipality did not maintain appropriate cash management procedures in order to request funds from federal agencies only for immediate needs.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart C, Section 85.20 (b) (7).
Recommendation	We recommend management to continue strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-07
Program	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs
Requirement	Davis-Bacon Act
Statement of Condition	<p>During our Davis-Bacon Act test for the construction projects 99-FD-56-004 and 01-FD-56-004, we noted the following situations:</p> <ul style="list-style-type: none">a. For the project 01-FD-56-004, the Municipality did not apply adequately the monitoring system developed to ensure contractors compliance with payment of prevailing wages rates to employees.b. For the project 01-FD-56-004, the contractor's and subcontractor's laborers interviews were not made.c. For the project 01-FD-56-004, the contractor weekly payrolls were not requested to be reviewed by the municipal employee responsible of applying monitoring procedures.
Criteria	Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
Cause of Condition	The Municipality did not apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **03-07 (Continued)**

Recommendation We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis by the responsible Municipal Employee to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors promptly about any failure in the payroll process.

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-08

Program Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs (OCAM)

Requirement Procurement and Suspension and Debarment

Statement of Condition During our contract provision test, we noted the following situations:

- a. One (1) contract did not include a provision for compliance with Davis Bacon.
- b. One (1) contract did not include a provision for compliance with Sections 103 and 107 of the contract work hours & safety standards act.
- c. One (1) contract did not include a provision for granting access to GAO or other federally agency, to books and other documents.
- d. One (1) contract did not include a provision for compliance with the Clean Air Act and Water Act.
- e. One (1) contract did not include a provision for compliance with Energy Policy and Conservation Act.
- f. One (1) contract did not include a provision for compliance with the Copeland "Anti-Kickback".
- g. One (1) contract did not include a provision for retention of all required records for three years.

Criteria Code of Federal Regulations 24, Part 570.489 (g) requires that all purchase orders and contracts include any clauses required by Federal Statutes, executive orders and implementing regulations.

Cause of Condition The Municipality did not maintain appropriate monitoring procedures to detect the exclusion of certain contract clauses.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-08 (Continued)
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Part 570.489 (g).
Recommendation	We recommend management to update contract model according with the federal requirements.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **03-09**

Program **Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of the Commissioner of Municipal Affairs**

Requirement **Reporting**

Statement of Condition During our examination of reporting, we noted the following situations on the Financial Quarterly Reports of the fiscal year 2002-2003:

- a. The Municipality did not maintain evidence that indicate if the Financial Quarterly Report ended on December 31, 2002 was submitted on a timely basis.
- b. For the Financial Quarterly Report ended on June 30, 2003, cash outlays per general ledgers disagree with cash outlays reported in the quarterly reports. The following summarize the differences between the amounts presented in the Financial Quarterly Report and the amounts presented in the program's General Ledger:

Cash Disbursements Accounting Number	Amount per Quarterly Report	Amount per General Ledger	Difference
98-FD-006 (501)	\$102,015.27	\$ 80,826.50	\$ 21,188.77
99-FD-ADM (709)	2,155.20	1,510.60	644.60
99-FD-ADM (720)	3,328.00	2,688.00	640.00
99-FD-001 (505)	47,500.00	0.00	47,500.00
00-FD-ADM (701)	53,438.23	46,224.82	7,213.41,
00-FD-ADM (702)	18,665.63	17,884.65	770.98
00-FD-ADM (703)	3,621.62	347.50	3,274.12
00-FD-ADM (706)	279.10	96.55	182.55
00-FD-ADM (707)	4,500.00	2,700.00	1800.00
00-FD-ADM (709)	2,895.95	1,693.56	1,202.39
00-FD-ADM (720)	2,032.50	1,328.50	704.00
00-FD-001 (501)	195,700.00	127,170.00	68,530.00
00-FD-002 (603)	149,703.02	148,616.22	1,086.80

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Mayor Federal Award Program Findings and Questioned Costs

Finding Reference 03-09 (Continued)

Criteria	Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirement must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that the funds received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.
Cause of Condition	The Municipality financial management system failed to ensure accurate, current, and complete disclosure of the financial results of financially assisted activities.
Effect of Condition	The Municipality did not report accurate financial results to pass-through grantor for the quarter ended June 30, 2003.
Recommendation	We recommend to the Municipality's Management to reconcile differences between the financial quarterly report and the general ledgers before report submission to the pass-through grantor.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-09	14.228	<p><u>The Municipality should request funds only for immediate needs.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-06.</p>
02-10	14.228	<p><u>The Municipality should follow monitoring system procedures developed including obtaining contractor's and if applicable subcontractor's weekly payrolls to be reviewed weekly by responsible Municipal Employee and interviewing contractor's and subcontractor's (if applicable) laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-07.</p>
02-11	14.228	<p><u>The Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real and personal property as well as Construction in Progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information.</u></p> <p>Full corrective action has been taken.</p>
02-12	14.228	<p><u>The Municipality should update the contract model according with the federal requirements.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-08.</p>
02-13	14.228	<p><u>The Municipality should maintain a full set of accounting records, which adequately identify the source and application of funds provided for financially-assisted activities. Also, the accounting records must contain all information pertaining to grant or sub-grant awards and authorizations, obligations, un-obligated balances, assets, liabilities, outlays or expenditures, and income. In addition, we recommend Management to prepare and submit all reports required per grant agreements in compliance with established deadlines. If the deadlines are not achievable, a request for an extension should be obtained from the Pass-through Grantor.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-09.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-14	14.871	<u>The Municipality should establish monitoring procedures to assure that Housing Assistance payments are duly computed as required by the Federal Regulations.</u> No corrective action was taken.
02-15	14.871	<u>The Municipality should establish adequate monitoring procedures in order to assure that release form to allow information from third parties, employment information and the Privacy Act Notice and all required participants information are included in the participant files as required by Federal Regulations.</u> No corrective action was taken.
02-16	14.871	<u>The Municipality should establish adequate monitoring procedures in order to assure the program compliance with federal regulations.</u> No corrective action was taken.
02-17	14.871	<u>The Municipality should establish adequate monitoring procedures in order to assure the program compliance with federal regulations.</u> No corrective action was taken.
02-18	14.871	<u>The Municipality should follow admission procedures established in the administrative plan. Also, we recommend management to establish adequate internal controls which allow us to perform a proper tracing of participants selected from the waiting list in order to assure the participant selection from the top of the waiting list.</u> No corrective action was taken.
02-19	14.871	<u>The Municipality should establish adequate controls to assure that the reasonable rent determination is performed for at least three (3) unassisted units and that appropriate documentation of the reasonable rent determination is maintained in participant's files.</u> No corrective action was taken.
02-20	14.871	<u>The Municipality should properly document the evidence of its utility allowance study to determine if there has been a change of 10% or more in the utility rate each year as established in the federal regulations.</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action was taken.
02-21	14.871	<u>The Municipality should implement internal control procedures to assure that annual inspections and quality control re-inspections are properly performed. The PHA supervisor or other qualified person must re-inspect a sample of units under contract during the last PHA fiscal year. Completed HQS inspections included in the sample must be no older than three months at the time of re-inspection. In addition, the quality control re-inspection should provide feedback on inspectors' work, which can be used to determine if individual performance or general HQS training issues need to be addressed. For HQS deficiencies that are the owner's responsibility and are not corrected within the prescribed time frames, the PHA must abate Housing Assistance Payments beginning no later than the first of the month following expiration of the PHA violation notice.</u>
		No corrective action was taken.
01-07	14.228	<u>The Municipality did not maintain adequate cash management procedures.</u>
		No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 03-06.
01-08	14.228	<u>Davis-Bacon Act</u>
		No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-07.
01-09	14.228	<u>The Municipality did not maintain adequate property records.</u>
		Full corrective action has been taken
01-10	14.228	<u>Procurement and Suspension and Debarment</u>
		No corrective action has been taken. The auditors reissued the finding for the current year. Finding Reference 03-08.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2003

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-11	14.228	<u>Reporting</u> No corrective action has been. The auditors reissued the finding for the current year. Finding Reference 03-09.
99-2	83.544	<u>Disbursement vouchers were not available for examination</u> No corrective action has been taken.