

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

**MUNICIPIO DE SALINAS
AUDITORÍA 2007-2008
30 DE JUNIO DE 2008**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2008

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2007**

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MUNICIPALITY OF SALINAS, PUERTO RICO
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2007**

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Pedro C. Ortiz Ledée

Certified Public Accountant

INDEPENDENT AUDITORS' REPORT

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

I 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 (Municipality), as of and for the fiscal year ended June 30, 2008, 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. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note 8 to the financial statements, the Municipality did not have a complete, updated and accurate accounting records of capital assets in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the accompanying statement of net assets for \$13,543,840, net of accumulated depreciation of \$5,810,918, and accordingly, the amount by which this departure would affect the assets, net assets and expenses of the governmental activities is not reasonably determinable.

As discussed in Note 10 to the financial statements, the Municipality did not comply with the requirements established by Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*, issued by the Governmental Accounting Standards Board and the regulations set forth by the U.S. Environment Protection Agency. At June 30, 2008, the Municipality did not adjust its liability in the statement of net assets for the closure and post closure care costs of its solid waste landfill. In addition, the expenses and result of operations reported in the statement of activities are understated and overstated, respectively, for amounts that could not be determined for the fiscal year ended June 30, 2008.

As discussed in Note 1 (J), the Municipality did not comply with the requirements established by Statement No. 16, *Accounting for Compensated Absences*, issued by the Governmental Accounting Standards Board. The Municipality did not adjust in its statement of net assets the balance of compensated absences at June 30, 2008. In addition, the expenses and result of operations reported in the statement of activities are understated and overstated, respectively, for amounts that could not be determined for the fiscal year ended June 30, 2008.

The Municipality did not maintain proper accounting records of the interfund cash transactions and the corresponding due from and due to account balances. I was unable to obtain sufficient evidence to support the amount of \$4,136,501 recorded in each major fund and the aggregate remaining fund in due from and due to in the Balance Sheet of the governmental funds.

In my 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 as of June 30, 2008, or the changes in financial position, thereof for the year then ended.

INDEPENDENT AUDITORS' REPORT

Page 2

In addition, in my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary has I been able to audit evidence regarding interfund transactions, as described in the sixth paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2008, and the respective changes in financial position, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The Municipality, has not presented the Management Discussion & Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

The accompanying financial statements have been prepared assuming that the Municipality will continue as a going concern. As discussed in Note 12 to the financial statements, the Municipality, during several years has increased its deficit by exceeding its expenditures over its revenues. As of June 30, 2008 the accumulated deficit for its general fund amounted to \$8,749,543, with total liabilities of \$9,932,747 and total assets amounting to \$1,183,204. These conditions raised substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 26, 2009, on my consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The budgetary comparison information on pages 40 through 41, is not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. I 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, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Municipality. The Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying Financial Data Schedule is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


Pedro C. Ortiz Ledee, CPA
License Number 5200,
Expires on December 1, 2011

Guayama, Puerto Rico
March 26, 2009



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental Activities</u>
ASSETS:	
Cash and Investments.....	\$ 192,578
Cash with Fiscal Agent.....	3,251,742
Receivables (net):	
Property Taxes.....	234,757
Federal Grants.....	114,388
Others.....	628,813
	<u>4,422,278</u>
Capital Assets (Note 8):	
Land, Improvements and Construction in Progress.....	6,550,546
Other Capital Assets, (Net of Depreciation).....	6,993,294
Total Capital Assets.....	<u>13,543,840</u>
Total Assets.....	<u>17,966,118</u>
 LIABILITIES:	
Bank Overdraft.....	306,719
Accounts Payable and Accrued Expense.....	701,554
Due to Governmental Activities.....	4,882,759
Claims & Judgments.....	324,732
Deferred Revenue.....	747,465
Long-Term Liabilities (Note 10):	
Due within One Year.....	947,819
Due in More than One Year.....	13,817,440
Total Liabilities.....	<u>21,728,488</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt.....	10,369,961
Restricted for:	
Debt Service Fund.....	1,817,282
Other Purposes.....	4,391,310
Unrestricted (Deficit).....	<u>(20,340,923)</u>
Total Net Assets (Deficit).....	<u>\$ (3,762,370)</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government.....	\$ 6,609,093	\$ -	\$ -	\$ -	\$ (6,609,093)
Public Safety.....	1,315,899	-	142,914	-	(1,172,985)
Public Works.....	3,490,050	-	-	-	(3,490,050)
Culture and Recreation.....	1,320,024	-	31,900	-	(1,288,124)
Human Services and Welfare.....	2,384,983	-	892,331	-	(1,492,652)
Urban Development.....	3,267,300	-	-	1,435,289	(1,832,011)
Education.....	172,529	-	172,214	-	(315)
Interest on Long-Term Debt.....	527,988	-	-	-	(527,988)
Total Governmental Activities....	\$ 19,087,866	\$ -	\$ 1,239,359	\$ 1,435,289	(16,413,218)

General Revenues:

Taxes:

Property Taxes, levied for General Purposes.....	2,167,568
Property Taxes, levied for Debt Services.....	822,134
Municipal License Taxes.....	1,041,718
Licenses, Permits and Other Local Taxes.....	952,716
Intergovernmental.....	5,190,368
Charges for Services.....	196,722
Sales Tax.....	842,766
Rent.....	33,470
Miscellaneous.....	245,773

Total General Revenues..... 11,493,235

CHANGE IN NET ASSETS..... (4,919,983)

Net Assets - Beginning of Year..... 1,157,613

NET ASSETS - END OF YEAR..... \$ (3,762,370)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008

	General Fund	State Assignment Fund	Loans Fund	Debt Service Fund	Other Governmental Funds	Total Funds
ASSETS:						
Cash and Investments (Note 2).....	\$ -	\$ -	\$ 21,680	\$ -	\$ 170,898	\$ 192,578
Cash with Fiscal Agent.....	12,164	-	1,587,590	1,455,898	196,090	3,251,742
Receivables:						
Property Taxes.....	223,038	-	-	11,719	-	234,757
Sales Tax.....	63,504	-	-	-	-	63,504
Federal Grants.....	-	-	-	-	114,388	114,388
State Government.....	-	-	-	-	270,504	270,504
Due from Other Funds.....	621,345	2,365,770	38,000	349,665	761,721	4,136,501
Others.....	263,153	-	-	-	31,652	294,805
Total Assets.....	\$ 1,183,204	\$ 2,365,770	\$ 1,647,270	\$ 1,817,282	\$ 1,545,253	\$ 8,558,779
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Bank Overdraft.....	\$ 284,884	\$ 21,835	\$ -	\$ -	\$ -	\$ 306,719
Accounts Payable and Accrued Expense Liabilities....	372,936	121,085	46,933	-	160,600	701,554
Due to Governmental Units.....	4,882,759	-	-	-	-	4,882,759
Due to Other Funds.....	3,515,156	-	240,489	-	380,856	4,136,501
Claims & Judgments.....	324,732	-	-	-	-	324,732
Deferred Revenue:						
Volume of Business Tax.....	552,280	-	-	-	-	552,280
Federal Grants.....	-	-	-	-	195,185	195,185
Total Liabilities.....	9,932,747	142,920	287,422	-	736,641	11,099,730
Fund Balances:						
Reserve For:						
Encumbrances.....	1,557,493	-	-	-	-	1,557,493
Debt Service.....	-	-	-	1,817,282	-	1,817,282
Other Purposes.....	12,164	2,222,850	1,359,848	-	808,612	4,403,474
Unreserved (Deficit).....	(10,319,200)	-	-	-	-	(10,319,200)
Total Fund Balances.....	(8,749,543)	2,222,850	1,359,848	1,817,282	808,612	(2,540,951)
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,183,204	\$ 2,365,770	\$ 1,647,270	\$ 1,817,282	\$ 1,545,253	\$ 8,558,779

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Assignment Fund	Loans Fund	Debt Service Fund	Other Governmental Funds	Total Funds
REVENUES						
Property Taxes.....	\$ 2,167,568	\$ -	\$ -	\$ 822,134	\$ -	\$ 2,989,702
Volume of Business Taxes.....	1,041,718	-	-	-	-	1,041,718
Sales Taxes.....	842,766	-	-	402,710	-	1,245,476
Charges for Services.....	196,722	-	-	-	-	196,722
Federal Assistanes.....	-	-	-	-	2,159,745	2,159,745
Intergovernmental.....	5,190,368	842,275	38,000	-	744,112	6,814,755
Licenses and Permits.....	950,116	-	-	-	-	950,116
Rent.....	36,070	-	-	-	-	36,070
Miscellaneous.....	245,773	-	-	-	-	245,773
Total Revenues.....	10,671,101	842,275	38,000	1,224,844	2,903,857	15,680,077
EXPENDITURES						
Current:						
General Government.....	6,370,865	-	6,640	-	-	6,377,505
Public Safety.....	1,056,366	-	-	-	198,605	1,254,971
Public Works.....	2,699,059	-	-	-	-	2,699,059
Culture and Recreation.....	1,235,443	-	-	-	-	1,235,443
Human Services and Welfare.....	1,477,443	-	-	-	892,488	2,369,931
Urban Development.....	-	763,298	753,582	-	1,840,211	3,357,091
Education.....	-	-	-	-	172,214	172,214
Capital Outlay.....	-	-	311,740	-	-	311,740
Debt Service:						
Principal.....	-	-	-	762,500	-	762,500
Interest and Other Charges.....	-	-	-	527,988	-	527,988
Total Expenditures.....	12,839,176	763,298	1,071,962	1,290,488	3,103,518	19,068,442
OTHER FINANCING SOURCES (USES)						
Proceed From Issuance of Bonds.....	-	-	975,000	-	-	975,000
Transfers - In.....	19,000	-	-	394,372	-	413,372
Transfers - Out.....	(394,372)	-	-	-	(19,000)	(413,372)
Total Other Financing Sources and Uses.....	(375,372)	-	975,000	394,372	(19,000)	975,000
Net Change in Fund Balances.....	(2,543,447)	78,977	(58,962)	328,728	(218,661)	(2,413,365)
Fund Balance - Beginning as Restated (Note 12).....	(6,206,096)	2,143,873	1,418,810	1,488,554	1,027,273	(127,586)
Fund Balances - Ending.....	\$(8,749,543)	\$ 2,222,850	\$ 1,359,848	\$ 1,817,282	\$ 808,612	\$ (2,540,951)

*CAD
5/11/09*

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2008**

Total Fund Balances – Governmental Funds (Page 5) \$ (2,540,951)

Amounts reported for Governmental Activities in the Statement of Net Assets (Page 3) are different because:

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

Non Depreciable Capital Assets.....	\$ 6,550,546	
Depreciable Capital Assets.....	10,289,114	
Infrastructure Assets.....	2,515,098	
Accumulated Depreciation.....	<u>(5,810,918)</u>	
Total Capital Assets.....		13,543,840

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

General Bonds and Notes Payable.....	9,067,629	
Treasury Department Debt.....	55,795	
Municipal Revenues Collection Center Law 42.....	1,058,849	
Municipal Revenues Collection Center Law 146.....	230,797	
Land Information System Management.....	141,538	
Municipal Revenues Collection Center Final Settlements.....	166,895	
Water & Sewer Authority.....	360,640	
State Department of Labor.....	234,328	
Compensated Absences.....	1,228,088	
Claims & Judgments.....	182,997	
Solid Waste Landfill.....	<u>2,037,703</u>	
Total Long-Term Liabilities.....		<u>(14,765,259)</u>

Total Net Assets of Governmental Activities (Page 3)..... \$ (3,762,370)

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
June 30, 2008**

Net Change in Fund Balances – Total Governmental Funds (Page 6)..... \$ (2,413,365)

Amounts reported for Governmental Activities in the Statement of Activities (Page 4) are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Urban Development and Capital Outlay	\$ -	
Depreciation Expense	(694,678)	
Excess of Depreciation Expense over Capital Outlay		(694,678)

Revenues in the Statement of Revenues that correspond to Prior Year resources are recorded as Revenue in the Statement of Activities..... (1,512,194)

Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases Long-Term Liabilities in the Statement of Net Assets. In the current period, proceeds received was..... (975,000)

Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. In the current year the repayments were:..... 762,500

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. These activities consist of:

Decrease in Treasury Department Debt.....	27,898
Decrease in Municipal Revenues Collection Center Law 42	18,143
Increase in Municipal Revenues Collection Center Law 146	(230,797)
Decrease in Water & Sewer Authority Debt	8,741
Increase in State Department of Labor Debt.....	(79,120)
Decrease in Claims & Judgments	108,504
Decrease in U.S. Department of Housing and Urban Development Debt.....	24,000
Decrease in Land Information System Management Debt	<u>35,385</u>

Total Additional Expenditures..... (87,246)

Change in Net Assets of Governmental Activities (Page 4)..... \$ (4,919,983)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
Notes to Basic Financial Statements
June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Salinas of the Commonwealth of Puerto Rico (the "Municipality") is a local government with full legislative, fiscal and administrative powers to operate as a government under Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Law No. 81)*.

The Municipality's governmental system consists of executive and legislative branches. The Constitution of the Commonwealth of Puerto Rico (the "Commonwealth") provides for the separation of powers of the executive, legislative and judicial branches. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power is exercised by the Municipal Legislature, which is also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

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

The accounting policies of the Municipality conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

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

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). This statement established new financial reporting requirements for state and local governments. On July 1, 2002, the Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2008, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

According to the new financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

The required supplementary information, which consists of a management discussion and analysis (MD&A), is information presented along with, but separate from, the Municipality's basic financial statements. The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2008, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
Notes to Basic Financial Statements
June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

GASB No. 34 also required that the accounting for all governmental activities reported in the GWFS be based on applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB), issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. Accordingly, in conjunction and simultaneously with the adoption of GASB No. 34, the Municipality also adopted the following pronouncements: (1) APB Opinion No. 20 – *Accounting Changes*, (2) APB Opinion No. 21 – *Interest on Receivables and Payables*, (3) FASB Statement No. 5 – *Accounting for Contingencies* and (4) FASB Statement No. 16 – *Prior Period Adjustments*. The Municipality has elected to not apply all statements and interpretations issued by FASB after November 30, 1989.

A. Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor and (2) whose funds are under the legal custody and control of the Municipality’s Director of Finance and Budget, as prescribed by Law No. 81.

The Municipality’s management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality’s basic financial statements to be misleading or incomplete.

GASB Statement No. 14 – *The Financial Reporting Entity* (GASB No. 14) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body and (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Municipality.

On July 1, 2003, the Municipality adopted the provisions of GASB Statement No. 39 – *Determining Whether Certain Organizations are Component Units* (GASB No. 39). This statement provides additional guidance in determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, GASB No. 39 requires reporting a component unit if an organization rises and holds economic resources for the direct benefit of a governmental unit.

The Municipality’s management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality as of June 30, 2008.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Government-wide Financial Statements

The accompanying government-wide financial statements are composed of: (1) the statement of net assets and (2) the statement of activities. These financial statements do not report fund information but rather report information of all of the Municipality's governmental activities. These statements are aimed at presenting a broad overview of the Municipality's finances through reporting its financial position and results of operations as a whole, using methods that are similar to those used by most private businesses.

The focus of the government-wide financial statements is not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability), but on operational accountability information about the Municipality as a single economic unit. Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net assets provides short-term and long-term information about the Municipality's financial position and condition by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). This statement assists management in assessing the level of services that can be provided by the Municipality in the future, and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets, including infrastructure, and discloses legal and contractual restrictions on resources.

Net assets are classified in the accompanying statement of net assets within the following three categories:

- **Invested in capital assets, net of related debt** – These consist of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets have been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.
- **Restricted net assets** – These consist of net assets restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation is defined as legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

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

COMMONWEALTH OF PUERTO RICO
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June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

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

- **Unrestricted net assets** – These consist of net assets that are neither externally or legally restricted, nor invested in capital assets. However, unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints that are imposed by management, but can be removed or modified.

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

The accompanying statement of activities presents the results of the Municipality's operations by showing how the Municipality's net assets changed during the year ended June 30, 2008, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, other local taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) public safety, (3) public works, (4) human services and welfare, (5) culture and recreation, (6) urban development and (7) education. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements: (a) general government, (b) public safety, (c) public works, (d) human services and welfare, (e) culture and recreation, (f) urban development and (g) and education.

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in two broad categories: (1) program revenues and (2) general revenues.

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at the net cost of the function/program that must be financed from the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.
- **Program-specific capital and operating grants and contributions** – These consist of transactions that are either mandatory or voluntary no exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Capital grants and contributions consist of capital assets or resources that are restricted for capital purposes – to

COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

purchase, construct or renovate capital assets associated with a specific program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Restricted capital and operating grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes and construction excise taxes are reported as general revenues. All other non-tax revenues (including unrestricted investment earnings, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The general government function/program reported in the accompanying statement of activities, includes expenses that are, in essence, indirect or overhead expenses of the Municipality's other functions/programs. Even though some of these costs have been charged to other funds in the governmental fund financial statements as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect expenses as direct expenses of the general government function.

Accordingly, the Municipality does not allocate general government (indirect) expenses to other functions.

The effects of all interfund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net assets and activities.

The Municipality classifies all of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other no exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the governmental fund financial statements.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net assets for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations or activities that are primarily financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public is financed primarily through user charges.

Governmental Fund Financial Statements

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major funds, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current year have complied with public decisions concerning the raising and spending of public moneys in the short term (one fiscal year).

COMMONWEALTH OF PUERTO RICO
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June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Each governmental fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity or deficit, revenue and expenditures. The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- General Fund – The general fund is the Municipality's main operating and major fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- Special revenue Fund – The special revenue funds are used by the Municipality to account for revenues derived from grants or other revenue sources (other than major capital projects) that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.
- Debt Service Fund – The debt service fund is used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds and notes for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) general long-term debt for which the Municipality is being accumulating financial resources in advance, to pay principal and interest payments maturing in future years.

General long-term debts for which debt service payments do not involve the advance accumulation of resources (such as obligations under capital leases, compensated absences, claims and judgments, and notes payable, among others) are accounted for in the accompanying statement of net assets. The debt service payments of such debts are generally accounted for in the general fund.

- Capital Projects Funds – Capital projects funds are used to account for the financial resources used in the acquisition or construction of major capital facilities, other assets and permanent improvements. Significant capital outlays financed from general obligation bond proceeds are accounted for also in the capital projects funds.

The use of the capital projects funds has been reserved for major capital acquisitions or construction activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capital assets (such as certain vehicles and other minor capital assets) have been reported in the fund from which financial resources were used for the purchase.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
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June 30, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Prior to GASB No. 34, the Municipality was required to report governmental fund financial statements that presented a single aggregated column for each fund type. Each column presented the combined total of all funds of a particular type. Fund types are no longer the focus of the accompanying governmental fund financial statements. Under GASB No. 34, the focus of the governmental fund financial statements is on major funds, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds between major and non-major within the governmental fund financial statements. Major individual governmental funds are reported individually as separate columns in the governmental fund financial statements, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other fund is considered a major fund for financial reporting purposes if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of interfund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying governmental fund financial statements are as follow:

- General Fund – This 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.
- State Assignment Fund - This is the fund used to account for the capital project transactions of the State Assignment by Legislature Resolutions. The primary objectives of this assignment is the acquisition or construction of major capital facilities, other assets and permanent improvements.
- Loans Fund - This is the fund used to account for all financial resources and transactions related to the loans for operational purposes, construction purposes and capital outlays of the Municipality, which is financed by loans from the Government Development Bank of Puerto Rico.
- Debt Service Fund - 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.

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values.

An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include fees for licenses and permits, charges for services, and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from nonexchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB No. 33), which the Municipality adopted on July 1, 2003. GASB No. 33 established accounting and reporting standards for nonexchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a nonexchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its nonexchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed nonexchange revenues, (c) government mandated nonexchange transactions, and (d) voluntary nonexchange transactions.

In the case of derived tax revenue transactions (such as municipal license taxes), which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred (that generally is, when the taxpayers' net sales or revenues subject to tax take place).

In the case of imposed no exchange revenue transactions (such as property taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes are generally recorded as revenues (net of amounts considered not collectible) in the period when resources are required to be used or the first period that the use of the resources is permitted.

Government-mandated no exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to another government (such as the Municipality), and the provider government requires the recipient government to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these types of transactions, receivables and revenues are generally recorded as follows:

- For reimbursement-type (commonly known as "expenditure-driven awards"), receivables and revenues are recorded when all eligibility requirements imposed by the provider have been met. The Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

- For other types of grants (mainly grants and contributions with purpose restrictions but with no time requirements), receivables and revenues are recorded when all applicable eligibility requirements are met. When the provider is a government (including the government of the United States of America) the applicable recognition period for both, the provider and the recipient, is the provider's fiscal year and begins on the first day of that year.

Voluntary no exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated no exchange transactions discussed above.

Receipts of any type of revenue sources collected in advance for use in the following period are recorded as deferred revenues.

Events that are neither exchange nor no exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations to better identify the relationship between the GWFS and the GFFS.

Governmental Fund Financial Statements

The accompanying GFFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are generally considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Municipality considers most revenues to be available if collected within 60 days after June 30, 2008, including property taxes. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred revenues at June 30, 2008. The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions and interest income. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, fees for licenses and permits, charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from no exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for no exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, municipal license tax receivables and revenues are generally recorded when the underlying exchange has occurred. Property tax receivables are also generally recorded in the period when an enforceable legal claim has arisen while property

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June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

tax revenues (net of amounts considered not collectible) are also generally recorded in the period when resources are required to be used or the first period that the use of the resources is permitted. Receivables and revenues from reimbursement-type grants, contributions, donations and entitlements are also generally recorded as qualifying reimbursable expenditures are incurred, while receivables and revenues from other types of grants are recorded when all eligibility requirements imposed by the provider have been met.

Interest income is recorded when earned only if collected within 60 days after year-end since these would be considered both measurable and available.

As previously discussed, on July 1, 2002, the Municipality adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASB No. 6), which modifies the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting and clarifies a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities.

Pursuant to the provisions of GASB No. 6, in the absence of an applicable accrual modification, governmental fund liabilities and expenditures should be accrued. Liabilities that governments normally pay in a timely manner and in full from expendable available financial resources (for example, salaries and utilities) should be recognized when incurred, without regard to the extent to which resources are currently available to liquidate the liability.

Modifications to the accrual basis of accounting include:

- Employees' accumulated vacation and sick leave is recorded as expenditure when consumed. The amount of the unpaid compensated absences has been reported only in the accompanying statements of net assets.
- Principal and interest on bonds and notes payable are recorded when they mature (when payment is due).
- Obligations under capital leases, amounts subject to claims and judgments under litigation and other long-term obligations are recorded only when they mature (when payment is due).
- Accounts payable and accrued liabilities not expected to be liquidated with available and expendable financial resources are recorded in the accompanying statement of net assets but not in the governmental funds.
- Executors purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

Liabilities outside the bounds of these exceptions or modifications are reported as governmental fund liabilities when incurred (including salaries, professional services, supplies, utilities, etc.) since these liabilities normally are paid in a timely manner and in full from current financial resources.

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

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Under the new financial reporting model established by GASB No. 34, all general capital assets and the unmatured long-term liabilities (determined using the modified accrual basis of accounting) are no longer reported in account groups within the governmental fund balance sheet but are incorporated into the accompanying statement of net assets since July 1, 2002.

C. Financial Statement Presentation

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial model the focus is on either the Municipality as a whole, or major individual funds (within the basic financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

D. Budgetary Data

Budgetary Control

According to the Autonomous Municipalities Act of the Commonwealth of Puerto Rico, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund. Such legally adopted budget is based on expected expenditures by program and estimated resources. The annual budget is developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budget is prepared.

The Mayor must submit an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of Puerto Rico (the Commissioner) and the Municipal Legislature no later than each May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before each June 13.

The Municipal Legislature has 10 business days, up to June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budget is not adopted prior to the end of the deadlines referred to above, the annual budget for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits the Municipality to continue making payments for its operations and other purposes until the new budget is approved.

The annual budget may be updated for any estimate revisions as well as year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budget, which are subject to the approval of the Municipal Legislature.

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June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

The Municipality's Department of Finance has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, public safety, public works, health and sanitation, culture and recreation, economic development, community development, and education) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budget is prepared under the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

Under the budgetary basis of accounting, revenue is generally recognized when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at year-end. Other appropriations, mainly capital projects 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 accompanying budgetary comparison schedule provides information about the general fund's original budget, the amendments made to such budget, and the actual general fund's results of operations under the budgetary basis of accounting for the fiscal year ended June 30, 2008. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2008. Copies of that report may be obtained by writing to the Municipality's Director of Finance.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP. Accordingly, the accompanying budgetary comparison schedule is accompanied by a reconciliation of the differences between the budgetary basis and GAAP actual amounts.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

E. Cash, Cash Equivalents and Cash with Fiscal Agents

The Municipality's deposits are composed of cash on hand, demand deposits and cash equivalents in: (1) commercial banks, and (2) the Government Development Bank for Puerto Rico (GDB), a governmental bank and a major component unit of the Commonwealth, who is statutorily designated as fiscal agent of the Municipality.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements. Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Secretary of the Treasury of the Commonwealth, but not in the Municipality's name.

Cash with fiscal agent in the debt service fund represent property tax collections, which are retained and restricted for the payment of the Municipality's debt service, as established by law. Cash in fiscal agent in other governmental funds consists of unspent proceeds of bonds and notes, and the balance of interest and non interest bearing accounts which are restricted for: (1) the acquisition, construction or improvement of major capital assets and the operations of federal and state funded programs.

F. Receivables

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2008. Major receivable balances for the governmental activities include intergovernmental, federal grants, volume of business taxes and construction excise tax receivables.

Tax receivables in the debt service fund consist of uncollected property taxes, which are restricted for the payment of the Municipality's debt service, as established by law.

Intergovernmental and federal grant receivables are composed of: (1) amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federal and state funded programs (recorded in the special revenue funds and capital project funds). These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities among 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 GFFS, 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.

G. Inventories

Inventories consist of materials, supplies, food and medicine inventories held for consumption. Generally, inventories are recorded as expenditure when acquired, and therefore, is not recorded in the statement of net assets.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

H. Capital Assets

Capital assets in governmental activities include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are capitalized and reported in the accompanying statement of net assets. 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.

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

Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction-in-progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight – line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

<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

Depreciation and amortization expense on capital assets are recorded as direct expenses of the function/programs specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the public works and economic development function.

I. Deferred Revenues

The Municipality reports deferred revenue on its GFFS and GWFS. In the GFFS, deferred revenue arises when:

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

Deferred revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

J. Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2008 and (2) is not contingent on a specific event (such as illness) that is outside the control of the Municipality and the employee. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes and Medicare taxes).

The vacation policy of the Municipality is established by law and provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment with the Municipality before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. Upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed. After 10 years of services any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

At June 30, 2008, the Municipality did not adjust in its statement of net assets the balance of compensated absences. A liability for compensated absences is reported in the GFFS only if they have matured, for example, as a result of employee resignations and retirements.

K. Long-term Debt

The long-term liabilities reported in the accompanying statements of net assets include the Municipality's bonds, notes, obligation under capital leases, compensated absences and legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net assets. Principal and interest payments on bonds due in July 1 of the following fiscal year are recorded as liabilities in the GWFS governmental activities column. In the GFFS, the face amount of debt issued is reported as other financing sources when issued.

L. Accounting for Pension Costs

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS) and System 2000, the two retirement systems in which the employees of the Municipality participate.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

Accordingly, the Municipality is considered a participant and not a sponsor of these retirement systems since the majority of the participants in the aforementioned pension trust funds are part of the financial reporting entity of the Commonwealth. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth account for the total amount of the net pension obligation of ERS, including any amount that may be allocated to the Municipality.

According to GASB No. 27, the Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

M. Insurances

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department (the Treasury Department) on behalf of all municipalities of Puerto Rico. The Treasury Department pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments deducted from the Municipality's gross property tax collections made by CRIM.

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

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation ("FSE" by its Spanish acronym), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment.

Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a quarterly basis.

The Municipality also obtains medical insurance coverage for its employees. The current insurance policies have not been cancelled or terminated at June 30, 2008. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

**COMMONWEALTH OF PUERTO RICO
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

N. Reservations of Fund Balance

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The reserves for related assets such as inventories and prepayments are examples of the former. Reserves for debt service and other specific purposes are examples of the latter.

O. Interfund Transactions

Permanent reallocations of resources among the Municipality's funds are classified as interfund transfers. The Municipality has the following types of activities recorded among funds in the accompanying GFFS:

- Operating Transfers – Represent legally required transfers that are reported when incurred as "operating transfers-in" by the recipient fund and as "operating transfer-out" by the disbursing fund.
- Intra-entity Activities – Represent transfers among funds that are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
- Advances – Represent amounts advanced among funds, which are not considered to be currently available financial resources.

P. Use of Estimates

The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Q. Future Adoptions of Accounting Pronouncement

The GASB has issued the following accounting standards that have effective dates after June 30, 2008:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This Statement is effective for periods beginning after December 15, 2007.
- GASB Statement No. 50, *Pension Disclosures*. This Statement amends GASB Statements No. 25 and 27 to require defined benefit pension plans, and sole and agent employers present the following information in their financial statements: (1) disclose the funded status of the plan as the most recent actuarial valuation date; (2) disclose the funded status of the plan, and schedule of funding progress as required supplementary information (RSI), using the entry age actuarial cost method (aggregate actuarial cost method used); (3) include a reference linking the funded status disclosure in the notes to financial statements to the required schedule of funding progress in RSI; (4) if actuarial assumptions are different for successive years, disclose the initial and ultimate rates. This Statement is effective for periods beginning after June 30, 2007.

COMMONWEALTH OF PUERTO RICO
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June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

N. Future Adoption of Accounting Pronouncements (continuation)

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009.
- GASB Statement No. 52, *Land and Other Real Estates Held as Investment by Endowments*. This Statement requires endowments to report their land and other real estate investments at fair value. Governments also required to report the changes in fair value as investment income and to disclose the method and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported as fair value. This Statement is effective for periods beginning after June 15, 2008.

The Municipality's management has concluded that the future adoption of GASB Statements No. 49, 50, 51 and 52 do not have any impact on the Municipality's basic financial statements.

NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS

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

- **Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2008.
- **Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2008, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2008, the Municipality's does not maintains any investments. Therefore, the Municipality's management has concluded that at June 30, 2008, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

COMMONWEALTH OF PUERTO RICO
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June 30, 2008

NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS (continuation)

- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2008. Therefore, the Municipality's management has concluded that at June 30, 2008 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.
- **Foreign exchange risk** – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2008.

At June 30, 2008 the total deposits are as follows:

	GENERAL FUND	STATE ASSIGNMENT FUND	LOANS FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUND
Unrestricted:						
Cash in commercial banks, Total unrestricted deposits	\$ -	\$ -	\$ 21,680	\$ -	\$ 170,898	\$ 192,578
Restricted (Note 1):						
Cash in GDB, as fiscal agent	12,164	-	1,587,590	1,455,898	196,090	3,251,742
Total carrying amount of deposits	\$12,164	\$ -	\$1,609,270	\$1,455,898	\$ 366,988	\$ 3,444,320

NOTE 3 MUNICIPAL LICENSE TAXES

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes on all trade or business activities operated by any natural or legal person within the territorial area of Salinas. This is a self-assessed tax generally based on the business volume measured by gross sales. The Municipality establishes the applicable tax rates. At June 30, 2008, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for other types of taxpayers. Any taxpayers that have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60% and 90% under standard rates.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
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June 30, 2008

NOTE 3 MUNICIPAL LICENSE TAXES (continuation)

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax return to be filed every April 15 based on the actual volume of business generated in the preceding calendar year.

Taxpayers with a sales volume of \$1 million or more must include audited financial statements with their tax returns. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration.

The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5% discount is granted automatically on the total tax amount due. Any municipal license taxes collected in advance (that is, pertaining to a future period) are recorded as deferred revenues. Deferred municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$552,280 at June 30, 2008, which represents municipal licenses collected in advance for the taxable year 2008-2009.

NOTE 4 SALES AND USE TAXES

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

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on July 1, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

NOTE 5 PROPERTY TAXES

The Municipality is authorized by Law No. 81 to impose and collect personal and real property taxes. Under the laws and regulations of the Commonwealth, personal property taxes can be imposed to any natural or legal person that at January 1 of each year is engaged in trade or business and is the owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax

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NOTE 5 PROPERTY TAXES (continuation)

rate in force at June 30, 2008 was 6.53% (of which taxpayers pay 6.33% and 0.20% is reimbursed by the Department of Treasury); after June 30, 2008, the total personal property tax rate has been 6.83%.

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property deflated to 1957 market prices. The total real property tax rate in force at June 30, 2008 was 8.53% (of which 8.33% is paid by taxpayers and 0.20% is also reimbursed by the Department of Treasury); after June 30, 2008, the total real property tax rate has been 8.83%.

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury assumes payment of the basic tax (4% and 6% for personal and real property, respectively) to the Municipality, except for property assessed of less than \$3,500 (at 1957 market prices), for which no payment is made.

CRIM is responsible for the billing and collections of real and personal property taxes on behalf of the Municipality. Prior to the beginning of each fiscal year, CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, CRIM advances funds to the Municipality based on the initial estimated collections. 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 each December 31. If CRIM remits to the Municipality property tax advances, which are less than the property tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

Law No. 81 provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. Such special tax is levied and collected by CRIM. Collections of this special tax are remitted to the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth.

In addition, 1.50% of the total personal and real property taxes collected by CRIM is restricted for the Municipality's debt service requirements and is retained by GDB for such purposes.

The Additional Lottery System of the Commonwealth (the "Additional Lottery") is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

1. Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
2. An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35% corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico

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June 30, 2008**

NOTE 5 PROPERTY TAXES (continuation)

Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

NOTE 6 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2008, balance due to other governmental units, consists of the following:

	<u>AMOUNT</u>
State Treasury Department	\$ 1,402,323
State Department of Labor	2,184
General Service Administration	56,304
Internal Revenues Services	2,000,558
State Retirement System Administration	1,360,722
Association of Employees of the Commonwealth of Puerto Rico	23,433
State Insurance Fund Corporation	<u>37,235</u>
Total Due to Governmental Units	<u>\$ 4,882,759</u>

NOTE 7 INTERFUND TRANSFER AND BALANCES

A. Interfund Transfers

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations. During fiscal year 2007-2008 the General Fund transfers to the Debt Service Fund \$394,372 for debt payment. In addition, Other Governmental Funds transfer to the General Fund \$19,000 for culture and recreation purposes.

B. Interfund Receivable and Payable Balances

Interfund receivables and payables at June 30, 2008 are summarized as follows:

<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>	<u>AMOUNT</u>
General Fund	Loans Fund	\$ 240,489
General Fund	Other Funds	380,856
State Assignment	General Fund	2,365,770
Loans Fund	General Fund	38,000
Debt Service	General Fund	349,665
Other Funds	General Fund	<u>761,721</u>
TOTAL		<u>\$ 4,136,501</u>

**COMMONWEALTH OF PUERTO RICO
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June 30, 2008**

NOTE 8 CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2008 was as follows:

<u>DESCRIPTION</u>	<u>BALANCE JULY 1, 2007</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE JUNE 30, 2008</u>
Non-Depreciable Capital Assets:				
Land.....	\$ 4,855,013	\$ -	\$ -	\$ 4,855,013
Construction in Progress.....	<u>1,695,533</u>	<u>-</u>	<u>-</u>	<u>1,695,533</u>
Total Non-Depreciable Capital Assets ..	<u>6,550,546</u>	<u>-</u>	<u>-</u>	<u>6,550,546</u>
Depreciable Capital Assets:				
Buildings.....	6,970,923	-	-	6,970,923
Infrastructure.....	2,515,098	-	-	2,515,098
Machinery and Equipment.....	1,081,650	-	-	1,081,650
Motor Vehicles.....	<u>2,236,541</u>	<u>-</u>	<u>-</u>	<u>2,236,541</u>
Total Depreciable Capital Assets	<u>12,804,212</u>	<u>-</u>	<u>-</u>	<u>12,804,212</u>
Less Accumulated Depreciation:				
Buildings.....	(2,140,985)	(174,273)	-	(2,315,258)
Infrastructure.....	(419,099)	(129,608)	-	(548,707)
Machinery and Equipment.....	(863,781)	(92,519)	-	(956,300)
Motor Vehicles.....	<u>(1,692,375)</u>	<u>(298,278)</u>	<u>-</u>	<u>(1,990,653)</u>
Total Accumulated Depreciation.....	<u>(5,116,240)</u>	<u>(694,678)</u>	<u>-</u>	<u>(5,810,918)</u>
Total Depreciable Capital Assets (Net) .	<u>7,687,972</u>	<u>(694,678)</u>	<u>-</u>	<u>6,993,294</u>
CAPITAL ASSETS, NET	<u>\$14,238,518</u>	<u>\$ (694,678)</u>	<u>\$ -</u>	<u>\$13,543,840</u>

Depreciation expenses were charged to governmental functions/programs as follows:

	<u>AMOUNT</u>
General Government.....	\$ 150,982
Public Work.....	310,645
Public Safety.....	60,928
Culture and Recreation.....	84,581
Education.....	315
Human Services and Welfare.....	15,052
Urban Development.....	<u>72,175</u>
Total Depreciation Expenses	<u>\$ 694,678</u>

The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2008 and a physical inventory and a valuation of its capital assets of governmental activities was not performed during the fiscal year ended June 30, 2008. The infrastructure assets recorded in the accompanying statement of net assets do not include a substantial portion of the Municipality's infrastructure assets constructed or acquired by the Municipality from 1980 through June 30, 2008.

NOTE 9 EMPLOYEES RETIREMENT SYSTEM

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the "System"). The System is the administrator of a multi-employer cost-sharing (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. The System was created under Act. No. 447 approved on May 15, 1951, as amended, and became effective on January 1, 1952. The System covers all regular employees of the Commonwealth and its instrumentalities, the Municipality and other municipalities of the Commonwealth.

The System is independent, thus assets may not be transferred to another system or used for any purpose other than to benefit each system's participants. The System issues publicly available financial reports that include its basic financial statements and required supplementary information for each of them, including required six-year trend information. Those reports may be obtained by writing to the administrator of the System.

The System provides for retirement, death and disability benefits. Death and disability retirement benefits are available to members for occupational and non-occupational death and disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after 10 years of plan participation.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75 percent of the average compensation.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension system ("System 2000"). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, had the option to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, are the only required becoming members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as cash balance plan. Under this new plan, there is a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth nor the Municipality will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275 percent of the employees' salary up to a maximum of 10.00 percent) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity U.S. Treasury Note; (2) earn a rate equal to 75 percent of the return of the System 2000's investment portfolio (net of management fees); or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

Disability pensions are not being granted under System 2000. The employer's contributions (9.275 percent of the employees' salary which is applicable to the Municipality) will be used to fund the current plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or later January 1, 2000.

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NOTE 9 EMPLOYEES RETIREMENT SYSTEM (continuation)

Funding Policy:

Contribution requirements are established by law and are as follows:

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

On August 12, 2000, Act No. 174 was approved to allow certain participants of the ERS to be eligible for early retirement upon attaining at least age 55 with 25 years of service, provided they made their election on or before April 1, 2001. Those who elected early retirement under this law will receive monthly benefits of 75 percent (if 25 or more year of service and 55, or 30 or more years or services and age 50) or benefits of 65 percent (if 25 years of service by less than age 55) of their average compensation which is computed based on the highest 36 months of compensation recognized by the System. In these cases, the employer (including the Municipality) is responsible for contributing to the System the amount needed to cover the benefit payments and employer contribution with respect to the participants covered until the participants reaches the normal retirement age.

Historically, the Commonwealth has reported the System as a single-employer plan (as relates only to the financial reporting entity of the Commonwealth) in its comprehensive annual financial report. Accordingly, any actuarial deficiency that may exist or arise related to the Municipality's participating employees will be assumed by the Commonwealth since the System does not allocate any actuarial deficiencies pertaining to municipal employees participating in the System. The Municipality is only required by law to make statutory contributions in the rates mentioned above. As a result, no net pension obligation nor net pension asset that may be allocable to the Municipality's participating employees, if any, has been recorded in the accompanying basic financial statements.

The Municipality's actual contributions for the current year, which are equal to the statutory required contributions, are as follows: \$42,608 for Act. Number 447 and \$49,009 for System 2000.

NOTE 10 GENERAL LONG-TERM DEBT

The principal long-term obligations of the Municipality are general obligations bonds and special notes issued to finance the construction and improvements of public facilities and purchase of equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (see Note 7). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy send to the Municipality.

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Notes to Basic Financial Statements
June 30, 2008

NOTE 10 GENERAL LONG-TERM DEBT (continuation)

A. General Obligation Bonds

General obligations bonds and notes payable as of June 30, 2008, are comprised of the following individual issues:

General and Special Obligations:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
\$1,092,000, Series 1986, for public improvement, payable in annual installments ranging from \$22,000 to \$92,879, excluding interests at 6.00%, through January 1, 2010..	\$ 178,879
\$2,240,000, Series 1997, payable in semi- annual installments ranging from \$55,000 to \$200,000, excluding interests from 6.00% to 8.00%, through July 1, 2017	1,485,000
\$1,495,000, Series 2002, for public improvement, payable in annual installments ranging from \$20,000 to \$115,000, excluding interests from 4.50% to 5.31% through January 1, 2027	1,355,000
\$1,710,000, Series 2004, for operational purposes, payable in semi-annual installments ranging from \$30,000 to \$125,000, excluding interests at 6.00%, through July 1, 2028	1,575,000
\$2,300,000, Series 1993, for operational purposes, payable in semi-annual installments ranging from \$15,000 to \$60,000, excluding interests from 4.375% to 8.75%, through October 1, 2012	803,750
\$385,000, Series 2004, for operation purposes, payable in semi-annual installments ranging from \$5,000 to \$30,000, excluding interests from 5.00% to 7.50%, through July 1, 2028	350,000
\$805,000, Series 2004, for operational, payable in semi-annual installments ranging from \$15,000 to \$65,000, excluding interests from 5.00% to 6.00%, through July 1, 2028	725,000
\$975,000, Series 2008, for construction purposes, payable in semi-annual installments ranging from \$220,000 to \$270,000, excluding interests from 7.00% to 7.50%, through July 1, 2012	975,000
\$755,000, Series 2006, for purchase of equipment, payable in annual installments ranging from \$90,000 to \$130,000 excluding interests from 6.60% to 7.25%, through July 1, 2013	665,000
\$1,005,000, Series 2007, for operation purposes, payable in annual installments ranging from \$50,000 to \$120,000, excluding interests from 6.60% to 7.00%, through July 1, 2018	<u>955,000</u>
Total General and Special Obligations	<u>\$ 9,067,629</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
Notes to Basic Financial Statements
June 30, 2008

NOTE 10 GENERAL LONG-TERM DEBT (continuation)

The annual requirements to amortize the general and special obligations outstanding as of June 30, 2008 are as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 613,500	437,822	\$ 1,051,322
2010	870,379	517,852	1,388,231
2011	832,500	459,404	1,291,904
2012	916,250	402,683	1,318,933
2013	800,000	342,754	1,142,754
2014-2018	2,285,000	1,192,840	3,477,840
2019-2023	1,185,000	621,840	1,806,840
2024-2028	1,440,000	266,367	1,706,367
2029-2033	125,000	3,750	128,750
Totals	\$ 9,067,629	4,245,312	\$ 13,312,941

B. Other Long-Term Debts

	<u>Balance at June 30, 2007 as Restated</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Balance at June 30, 2008</u>	<u>Due Within One Year</u>
Notes payable to:					
Puerto Rico Treasury Department:					
Excess of property tax advances	\$ 83,693	\$ -	\$ 27,898	\$ 55,795	\$ 27,898
Municipal Revenue Collection Center (CRIM):					
LAW 42	1,076,992	-	18,143	1,058,849	19,282
Fiscal Years Final Settlement	166,895	-	-	166,895	-
Land Information Management System (LIMS)	176,923	-	35,385	141,538	37,522
LAW 146	-	240,414	9,617	230,797	9,617
State Water and Sewer Authority Debt Agreement	369,381	66,969	75,710	360,640	240,000
State Department of Labor - Debt Agreement	155,208	155,766	76,646	234,328	-
Compensated absences	1,228,088	-	-	1,228,088	-
Claims and judgments	291,501	-	108,504	182,997	-
Estimated landfill closure and postclosure care costs	2,037,703	-	-	2,037,703	-
U. S. Department of Housing and Urban Development	24,000	-	24,000	-	-
Total	\$ 5,610,384	\$ 463,149	\$ 375,903	\$ 5,697,630	\$ 334,319

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
Notes to Basic Financial Statements
June 30, 2008

NOTE 10 GENERAL LONG-TERM DEBT (continuation)

C. Changes in Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2008:

<u>DESCRIPTION</u>	<u>BALANCE JULY 1, 2007</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS AND ADJUSTMENT</u>	<u>BALANCE JUNE 30, 2008</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>	<u>AMOUNTS DUE AFTER NEXT YEAR</u>
General Obligations..	\$ 8,855,129	\$ 975,000	\$ 762,500	\$ 9,067,629	\$ 613,500	\$ 8,454,129
Others Debts.....	5,610,384	463,149	375,903	5,697,630	334,319	5,363,311
TOTAL	\$14,465,513	\$ 1,438,149	\$ 1,138,403	\$14,765,259	\$ 947,819	\$13,817,440

Notes Payable to Puerto Rico Treasury Department

Financing of the excess of property tax advances over collections - The Municipality entered into a financing agreement with the Puerto Rico Treasury Department to pay a debt related to the excess of property tax advances over collections made by the Puerto Rico Treasury Department prior to the creation of CRIM in 1993. The outstanding principal balances of the note payable to the Puerto Rico Treasury Department amounted to \$55,795 at June 30, 2008.

Notes Payable to CRIM

Law No. 42 – Act No. 42 of January 26, 2000 was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement allows for the financing of a debt that the municipalities of Puerto Rico have with CRIM, arising from the final settlements of property tax advances versus actual collections through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238 of August 15, 1999.

In addition, on February 12, 2003, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the excess of property tax advances through fiscal year 2000 and 2001. CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balances of the note payable to the CRIM amounted to \$1,058,849 at June 30, 2008.

Land Information Management System (LIMS)- the Municipality entered into a financing agreement with CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by CRIM on behalf of all municipalities, for the management of a digital database of taxpayers properties located in Puerto Rico. The outstanding balance of the note payable to the CRIM at June 30, 2008 amounted to \$141,538.

Fiscal year final settlements – For the fiscal year ended on June 30, 2007 the CRIM notify to the Municipality that the final settlement of property tax advances versus actual collections through fiscal year 2007 result in an overpayment to the Municipality of \$4,161. At June 30, 2008, the outstanding balances amounted to \$166,895.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
Notes to Basic Financial Statements
June 30, 2008

NOTE 10 GENERAL LONG-TERM DEBT (continuation)

Notes Payable to CRIM

Law 146- on September 24, 2002, CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001. The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by the Public Finance Corporation, a subsidiary of the GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996. The outstanding balance of the note payable to the CRIM at June 30, 2008 amounted to \$230,797.

Note Payable to Puerto Rico Water and Sewer Authority (AAA)

The Municipality entered into a financing agreement with AAA for the payment of the Municipality's debt for water and sewer services. The balance at June 30, 2008 is \$360,640.

Landfill Closure and Postclosure Care Costs Obligations

State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each statement of net assets date. The \$2,037,703 reported as landfill closure and postclosure care liability at June 30, 2007, represents the cumulative amount reported to date based on the percentage used of the estimated capacity of the landfill. The Municipality did not adjust, at June 30, 2008, the landfill closure and postclosure care liability in the statement of net assets.

The Municipality will recognize the remaining estimated cost of closure and postclosure care as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2007. The Municipality expect to to expand the boundaries of the existing landfill to extend the usefull life of the landfill. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Note Payable to State Department of Labor

The Municipality entered into a financing agreement with the State Department of Labor for the payment of the Municipality's debt for unemployment benefits. The balance at June 30, 2008 is \$234,328.

NOTE 11 DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality.

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality. Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
Notes to Basic Financial Statements
June 30, 2008

NOTE 12 GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During the current and prior years the General Fund of the Municipality has suffered recurring excess of expenditures over revenues, which have lead to an accumulated deficit in the General Fund of \$8,749,543 at June 30, 2008. The long term solution for this is situation is to bring the expenditures in line with revenues, which at this date, the Municipality has been unable to do.

Among the actions currently taken by managent in relation to this matter are; an implementation of a cost reduction plan, implementation of increased collection effort over accounts receivable, possible long term financing agreement with the Government Development Bank and monitoring the execution of the property tax, volume of business tax and sales and use tax.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Municipality to continue as a going concern.

NOTE 13 CONTINGENCIES

Litigations

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. With respect to pending litigation, the Municipality has reported liabilities of \$324,732 in the General Fund for awarded unfavorable judgments, plus \$182,997 in the government wide statement of net assets in addition to the amount reported in the General Fund.

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.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsels with the information currently available can not determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

Federal Programs

The municipality participates in a number of federal financial assistance programs. These programs are subject to audit on behalf the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant programs requirements, the Municipality may be required to reimburse, these costs, to the grantor agency.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
Notes to Basic Financial Statements
June 30, 2008**

NOTE 12 ACCOUNTING CHANGES, CHANGES IN REPORTING ENTITY AND RESTATEMENTS

Changes and restatements for the adoption of pronouncements and others are explained below.

Net Assets Restatements

The following schedule reconciles the June 30, 2007 Net Assets, as previously reported to Beginning Net Assets, as restated, July 1, 2007.

Net Assets (Deficit), as Previously Reported, At June 30, 2007.....	\$ 1,760,919
Claims & Judgments settled by lower amount.....	116,445
Adjustment to the Social Security Debt (interests, fines and penalties).....	(456,868)
Adjustment to the Treasury Department Debt (interests, fines and penalties).....	<u>(262,883)</u>
Beginning Net Assets (Deficit), as Restated, At July 1, 2007.....	<u>\$ 1,157,613</u>

Fund Balances Restatements

The following schedule reconciles the June 30, 2007 Fund Balances, as previously reported to Beginning Fund Balances, as restated, July 1, 2007.

	<u>GENERAL FUND</u>	<u>LOANS FUND</u>	<u>OTHER GOVERNMENTAL FUND</u>
Fund Balance (Deficit)/Net Assets, as Reported, June 30, 2007.....	\$(5,896,461)	\$ -	\$2,446,083
Claims & Judgments settled by lower amount.....	116,445	-	-
Social Security Debt (interests, fines and penalties).....	(456,868)	-	-
Treasury Department Debt (interests, fines and penalties).....	(262,883)	-	-
Debt- agreement with the State Water and Sewer Authority Debt.....	293,671	-	-
Major Fund reclassification.....	<u>-</u>	<u>1,418,810</u>	<u>(1,418,810)</u>
Beginning Fund Balance (Deficit) as Restated, July 1, 2007.....	<u>\$(6,206,096)</u>	<u>\$1,418,810</u>	<u>\$1,027,273</u>

NOTE 13 SUBSEQUENT EVENTS

On July 11, 2008 the Municipality's executive branch approved Ordinance Number 1, authorizing the issuance of a General Obligation Note in the amount of \$725,000, for the payment of part of the State Retirement System Debt and the Treasury Department Debt. This bond is payable with resources collected through the Debt Service Fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Budget Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes.....	\$ 2,167,569	\$ 2,167,569	\$ 2,167,568	\$ (1,000)
Municipal License Taxes.....	949,149	949,149	1,041,718	92,569
Licenses, Permits and Other Local Taxes.....	3,875,620	3,875,620	952,715	(2,922,905)
Intergovernmental Revenues.....	5,266,314	5,266,314	5,190,368	(75,946)
Charges for Services.....	147,000	147,000	196,722	49,722
Sales Tax.....	700,000	700,000	842,766	142,766
Rent of Property.....	45,000	45,000	33,470	(11,530)
Fines and Forfeitures.....	15,000	15,000	9,456	(5,544)
Miscellaneous.....	770,000	770,000	222,071	(547,929)
Total Revenues.....	13,935,652	13,935,652	10,656,854	(3,278,798)
Expenditures				
General Government.....	5,228,974	4,659,485	5,330,861	(671,376)
Public Safety.....	1,319,713	1,302,571	1,057,033	245,538
Public Work.....	4,115,715	4,489,651	2,984,971	1,504,680
Culture and Recreation.....	1,152,301	1,409,956	1,374,210	35,746
Human Services and Welfare.....	1,706,129	1,661,169	1,500,163	161,006
Transfer to Other Funds.....	412,820	412,820	394,372	18,448
Total Expenditures.....	13,935,652	13,935,652	12,641,610	1,294,042
Excess (Deficiency) of Revenues over Expenditures	\$ -	\$ -	\$ (1,984,756)	\$ (1,984,756)

See accompanying notes to required supplementary information.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2008

NOTE A Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>GENERAL FUND</u>
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (Page 40).....	\$ 10,656,854
Difference – Budget to GAAP:	
Current Adjustments to Revenues.....	<u>14,247</u>
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (Page 6).....	<u>\$ 10,671,101</u>
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (Page 40).....	\$ 12,641,610
Difference – Budget to GAAP:	
Prior Year expenditures are not outflows of budgetary resources but are expenditures For financial reporting purposes.....	586,950
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes.....	(702,617)
Transfers to other funds are outflows of Budgetary Resources but are not Expenditures For Financial Reporting Purpose.....	(394,372)
Current Adjustment to Expenditures.....	<u>707,605</u>
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (Page 6).....	<u>\$ 12,839,176</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choices Vouchers.....	14.871		\$ 417,344
Indirect Programs:			
Pass Through State – Office of the Commissioner of Municipal Affairs			
Community Development Block Grant (CDBG)...	14.228	07-AB 06-FC-AB 05-FC-AB 04-FC-AB 03-FC-AB 02-FC-AB 01-FD 00-FD 97-FD	<u>1,124,580</u>
Total U.S. Department of Housing and Urban Development			<u>1,541,924</u>
U.S. Department of Homeland Security:			
Pass-Through Office of the Governor:			
Public Assistant Grant	97.036	N/AV	323,379
Homeland Security Grant Program.....	97.067	SO-05-8	<u>38,000</u>
Total U.S. Department of Homeland Security			<u>361,379</u>
U.S. Department of Health and Human Services			
Pass-Through Instituto de Servicios Comunales, Inc.			
Community Services Block Grant	93.569	N/AV	27,143
Pass-Through Administration of Children and Families:			
Child Care and Development Block Grant	93.575	N/AV	<u>172,214</u>
Total U.S. Department of Health and Humans Services			<u>199,357</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$2,102,660</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Salinas, Puerto Rico (Municipality) and is presented on the modified accrual basis. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
- B. The Municipality in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 PASS-THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if they were received directly from the federal government, OMB Circular A-133 requires the schedule to include the name of the pass-through entity and identifying number assigned by the pass-through entity for federal awards received as a sub recipient. Numbers identified as N/AV are not available.

NOTE 5 MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

Pedro C. Ortiz Ledée

Certified Public Accountant

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

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

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Salinas, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated March 26, 2009. The report on the Governmental Activities has an adverse opinion because I was unable to obtain sufficient evidence related to the capital assets, the compensated absences liability and the liability for closure and post closure costs of the solid waste landfill reported in the government wide financial statements and the report on Governmental Funds was qualified because the interfund transactions reported in the fund financial statements were not properly supported in the accounting records. The auditor's report includes an explanatory paragraph related to going concern because the Municipality during several years has increased the General Fund's deficit by exceeding its expenditures over its revenues. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Municipality's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting. 08-III-01 through 08-III-09.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider items 08-III-02, 08-III-03, 08-III-04, 08-III-05, 08-III-06 and 08-III-09 to be material weaknesses.

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

Page 2

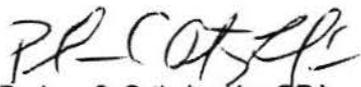
Compliance and Other Matters

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

I noted certain matters that I reported to management of the Municipality in a separate letter dated March 26, 2009.

The Municipality's responses to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the Municipality's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Pedro C. Ortiz Ledée, CPA
License Number 5200
Expires on December 1, 2011

Guayama, Puerto Rico
March 26, 2009



Pedro C. Ortiz Ledée

Certified Public Accountant

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

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

Compliance

I have audited the compliance of the Municipality of **Salinas**, Puerto Rico (Municipality) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. My responsibility is to express an opinion on the Municipality's compliance based on my audit.

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

As described in items 08-III-10, 08-III-11 and 08-III-12 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Allowable Cost, Cash Management and Procurement, Suspension and Debarment that are applicable to its Community Development Block Grant. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

As described in items 08-III-13, 08-III-14, 08-III-15, 08-III-16 and 08-III-17 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Eligibility, Reporting and Special Tests that are applicable to its Section 8 Housing Choice Voucher. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

As described in items 08-III-18, 08-III-19 and 08-III-20 in the accompanying Schedule of Findings and Questioned Costs, the Municipality did not comply with requirements regarding Allowable Cost, Procurement and Suspension and Debarment and Special Test that are applicable to its Public Assistance Grant. Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraphs, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008.

Internal Control Over Compliance

The management of the Municipality 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 my audit, I considered the Municipality's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

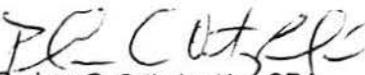
My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 08-III-10 through 08-III-20 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, I considered items 08-III-11, 08-III-14, 08-III-15, 08-III-16, 08-III-18 and 08-III-20 to be material weaknesses.

The Municipality's responses to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the Municipality's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the management, the Honorable Mayor and Members of the Municipal Legislature, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.


Pedro C. Ortiz Ledée, CPA
License Number 5200
Expires on December 1, 2011

Guayama, Puerto Rico
March 26, 2009



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified Opinion
 Qualified Opinion- Governmental Funds
 Adverse Opinion- Governmental Activities
 Disclaimer Opinion

Internal control over financial reporting:

- Material Weaknesses identified? Yes None Reported
- Significant Deficiencies identified that are not considered to be Material Weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material Weaknesses identified? Yes None Reported
- Significant Deficiencies identified that are not considered to be material weaknesses? Yes No

Type of auditors' report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with OMB Circular A-133? Yes No

Identification of Major Program:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
14.228	Community Development Block Grants
14.871	Section 8 Housing Choice Vouchers
97.036	Public Assistance Grants

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Section II- Financial Statements Finding

FINDING

08-II-01

REQUIREMENT

ACCOUNTING RECORDS AND FINANCIAL STATEMENTS

CONDITION

During my examination of the accounting cycle, I noted that the Municipality has not established nor acquired an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles. The accounting records are maintained in the cash and budgetary basis and at the end of year, personnel of the finance department and external consultants, summarized in electronic worksheets, the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long term-debts. These worksheets are used for the preparation of the financial statements.

Also, I noted the following conditions during my evaluation of the accounting cycle:

- a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. These accounting systems does not provide for a self balancing set of accounts for each fund operated by the Municipality. Both systems have significant differences at June 30, 2008, principally those arising of significant amounts of checks issued manually from the General Fund bank account and the special revenue funds bank accounts.
- b. Both accounting systems, does not help management to distinguish between expenditures incurred and encumbrances, does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payables and long-term debts.
- c. No adequate year-end closing entries procedures are made to account for all transactions affecting all funds.

CRITERIA

Article 8.010 (b) of State Act Number 81- *Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico* of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with generally accepted accounting principles in the United States of America (GAAP). In addition, Article 8.010 (c), states that uniform accounting system used by the Municipality must produce reliable reports and financial statements, provide complete information about the results of operations of the Municipality and include the necessary internal controls to account for all funds, capital assets and other assets.

CAUSE

The Municipality did not establish effective internal control over the preparation of the financial statements and the transactions recorded on its accounting records.

EFFECT

The lack of reconciliation of the accounting systems and the use of electronic worksheets, that the Municipality used to prepare the financial statements for the fiscal year 2007-2008, reflects various errors that required audit adjusting entries. In addition, the Municipality is not in compliance with Article 8.010 (b) (c) of the State Law Number 81 of August 30, 1991.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Section II- Financial Statements Finding

FINDING NUMBER	08-II-02
REQUIREMENT	ACCOUNTING RECORDS- INTERFUND TRANSACTIONS
CONDITION	During my examination of the accounting records, I noted that the Municipality does not maintain an accurate record over the Special Funds transactions. In addition the Municipality did not maintained proper records of the interfund cash transactions and the corresponding due from and due to accounts balances, for the Fiscal Year 2007-2008 and previous balances.
CRITERIA	Article 8.010 (C) (2) and (3) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, stated that Municipality should maintain accurate accounting records and funds controls.
CAUSE	The Municipality did not maintain an adequate control of the accountability of the Special Funds transactions and the due from and due to account balances.
EFFECT	The Municipality is not in compliance with Article 8.010 (C) (2) and (3) of the State Law Number 81 of August 30, 1991.
RECOMMENDATION	I recommend management to implement procedures in order to obtain and maintain all the required documentation regards the interfund transactions.
MANAGEMENT RESPONSE	The Municipality's Finance Department will implement procedures in order to obtain and maintain all the required documentation regards the interfund transactions. Implementation Date: 06/30/09 Responsible Person: Mr. José A. Romero Finance Division Manager

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Section II- Financial Statements Finding

FINDING NUMBER	08-II-03
REQUIREMENT	ACCOUNTING RECORDS- INTERFUND LOANS
CONDITION	During the fiscal year 2007-2008, the Municipality used \$335,000 of state grants – <i>Resoluciones Conjuntas</i> - (Special Revenue Funds), restricted funds as definition, as loan to paid operational cost of the General Fund.
CRITERIA	Article 8.004 (c) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991</i> - August 30, 1991(as amendment as of January 2004), stated that the restricted funds received by the Municipality should be only used for the purposes established by these resources.
CAUSE	The Municipality did not maintain an adequate control regards the administration and uses of restricted resources.
EFFECT	The Municipality is not in compliance with Article 8.004 (c) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991</i> - August 30, 1991(as amendment as of January 2004).
RECOMMENDATION	The Municipality should implement internal control procedures in order to comply with this requirement.
MANAGEMENT RESPONSE	The Municipality's Finance Department will implement internal control procedures in order to comply with this requirement. Implementation Date: 06/30/09 Responsible Person: Mr. José A. Romero Finance Division Manager

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Section II- Financial Statements Finding

FINDING NUMBER	08-II-04
REQUIREMENT	ACCOUNTING RECORDS- PROPERTY, PLANT AND EQUIPMENT
CONDITION	During my examination of the property records, I noted that the Municipality does not have an effective system to account for capital assets, including the infrastructure assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality has not recorded depreciation expense for the infrastructure not reported in the subsidiary ledger. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality has not performed periodical physical inventories of its capital assets during fiscal year 2007-2008.
CRITERIA	Article 10.002 of State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, stated that Municipality should maintain updated property accounting records.
CAUSE	The Municipality did not maintain an adequate control of the accountability of the capital assets.
EFFECT	The Municipality is not in compliance with Article 10.002 of State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991 (as amendment as of January 2004).
RECOMMENDATION	I recommend management and the Property Division of the Municipality to make an inventory of the capital assets and reconcile with the capital assets subsidiary ledger. In addition the Municipality should implement adequate internal control procedures to improve the accountability of infrastructure assets.
MANAGEMENT RESPONSE	The Municipality's management gave instructions to the Property Division to make as soon as possible a physical inventory of capital assets and to reconcile the inventory with the property ledger. Implementation Date: 06/30/09 Responsible Person: Mr. José A. Romero Finance Division Manager

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Section II- Financial Statements Finding

FINDING NUMBER	08-II-05
REQUIREMENT	ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS
CONDITION	At June 30, 2008 the Municipality did not adjusted on the statement of net assets the balance of the liability for closure and post closure care costs of the Municipality's solid waste landfill.
CRITERIA	Regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria"; the Municipality is required to place a final cover on the Municipality's solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. GASB 18 requires the Municipality to perform a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality must recognize a liability in its statement of net assets at June 30, 2007.
CAUSE	The Municipality did not maintain an adequate control of the accountability of the closure and post closure care costs of Municipal solid waste landfill. In addition the Municipality did not perform the study required by EPA and GASB 18.
EFFECT	The Municipality is not in compliance with GASB 18 and the "Solid Waste Disposal Facility Criteria" issued by the U.S. Environmental Protection Agency.
RECOMMENDATION	I recommend management to perform the study of the activities that need to be implemented at the Municipality's solid waste landfill facilities and determine the amount of the liability that should be reported in the governmental activities.
MANAGEMENT RESPONSE	The Municipality's Finance Department will request the study of the Municipality's solid waste landfill facilities and will determine the amount of the liability that should be reported in the governmental activities

Implementation Date: 06/30/09

Responsible Person: Mr. José A. Romero
Finance Division Manager

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section II- Financial Statements Finding

FINDING NUMBER	08-II-06
REQUIREMENT	ACCOUNTING RECORDS- COMPENSATED ABSENCES
CONDITION	At June 30, 2008 the Municipality did not adjusted on the statement of net assets the balance of the liability for accrued vacations, sick leaves and compensatory time (compensated absences) of the Municipality's employees.
CRITERIA	GASB 16, Accounting for Compensate Absences, issued by the Governmental Accounting Standards Board, establishes the standards for accounting and reporting for compensated absences for state and local governments.
CAUSE	The Municipality did not maintain adequate internal control procedures of the accounting of the compensated absences.
EFFECT	The Municipality is not in compliance with GASB 16, Accounting for Compensate Absences, issued by the Governmental Accounting Standards Board.
RECOMMENDATION	I recommend management to prepare a schedule with the information of the employees and the balance of the compensated absences and calculate the amount of the liability in compliance with the GASB 16.
MANAGEMENT RESPONSE	The Municipality will prepare an schedule with the information of the employees and the balance of the compensated absences and calculate the amount of the liability in compliance with the GASB 16.

Implementation Date: 06/30/09

Responsible Person: Mr. José A. Romero
Finance Division Manager

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section II- Financial Statements Finding

FINDING NUMBER	08-II-07
REQUIREMENT	EXPENDITURES FOR GOODS AND SERVICES
CONDITION	<p>During my evaluation of the Municipality's disbursement process, I examined sixty (60) disbursements of the General Fund and other Special Funds and found the following:</p> <ol style="list-style-type: none">1. In eleven (11) disbursements vouchers the supporting documents were not marked as paid or cancelled.2. In ten (10) disbursements vouchers the receiving report from the supplier was not available for my examination.3. In eight (8) disbursements vouchers the original invoice from the supplier was not available for my examination.4. In fifteen (15) disbursements vouchers the purchase order was issued after the invoice.5. In sixteen (16) disbursements vouchers there was no evidence of the procurement process.6. Three (3) disbursement vouchers were not available for my examination.
CRITERIA	<p>The Chapter Four (4) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico, established that the Finance Director will be responsible to account and prepare disbursements that includes sufficient evidential matter to support the transactions.</p>
CAUSE	<p>The Municipality's internal control failed to assure that the disbursement vouchers contains the documentation required by law.</p>
EFFECT	<p>The Municipality is not in compliance with Chapter Four of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico.</p>
RECOMMENDATION	<p>I recommend management to improve the procedures in order to obtain and maintain all the required documentation and supporting documents related to the disbursements process.</p>
MANAGEMENT RESPONSE	<p>The Finance Department received instructions that all disbursement vouchers should be marked as paid, supported by a receiving report, contained the original invoice and signed by the responsible persons.</p>

Implementation Date: 06/30/09

Responsible Person: Mr. José A. Romero
Finance Division Manager

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Section II- Financial Statements Finding

FINDING NUMBER	08-II-08
REQUIREMENT	PROCUREMENT PROCESS
CONDITION	During my Grant Disbursements test, I noted that the Municipality celebrated in May 2007 a bid for the reconstruction of roads, in which participates six bidders. In June 2007 the Municipality adjudicated the bid to one of the bidders without documenting adequately the reasons. My examination reveals, that other bidders offer better prices.
CRITERIA	Law 81, Article 10.006 (a), states the procurement process required by the Municipalities.
CAUSE	The Municipality does not documented adequately the procurement process.
EFFECT	The Municipality is not in compliance with Law 81, Article 10.006 (a).
RECOMMENDATION	I recommend management to implement procedures in order to obtain and maintain all the required documentation regards the procurement process to comply with this requirement.
MANAGEMENT RESPONSE	<p>The Administrator of the Municipality gave instructions to the persons in charge of the adjudication of bids, that every bid has to be documented adequately, including the evaluation of the requirements which the bidders must fulfill, the specifications, a cost analysis of every bidder's offer and the methods for conducting the evaluation and selection of the bids or proposals.</p> <p>Implementation Date: Immediately</p> <p>Responsible Person: Mr. José A. Romero Finance Division Manager</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Section II- Financial Statements Finding

FINDING NUMBER	08-II-09
REQUIREMENT	GENERAL FUND'S ACCUMULATED DEFICT
CONDITION	During my examination of the financial statements as of and for the fiscal year ended June 30, 2008, I noted that the General Fund has an accumulated deficit of \$8,749,543. Such accumulated deficit is caused by the cumulative results from many years in which expenditures have exceeded revenues. In addition, during the fiscal year 2007-2008 the General Fund has revenues of \$10,671,101 and expenditures and other financing uses of \$13,214,548 resulting in an operating deficit of \$2,543,447.
CRITERIA	Article 7.011 (a) of State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991 (as amendment as of January 2004), stated that for any accumulated deficit incurred in the General Fund at the end of any given fiscal year, the Municipality must reserve the necessary financial resources in the General Fund's operating budget of the immediately following fiscal year to cover such deficit.
CAUSE	The Municipality, over the years, has suffered recurring excesses of expenditures over revenues, which have lead to the accumulated deficit in the General Fund. In addition, the Municipality has not established an adequate budget control.
EFFECT	The Municipality will continue having liquidity problems and will continue affecting the Municipality's ability to finance current operations.
RECOMMENDATION	I recommend management to improve the budget control process, implement a cost reduction plan, increase the collection efforts over the municipal license tax, the property taxes, sales and uses tax and finally evaluate possible long term financing agreement with the Government Development Bank.
MANAGEMENT RESPONSE	The Finance Department gave instructions to improve the budget control process, implement a cost reduction plan, increase the collection efforts over municipal license tax, the sales tax and evaluate possible long term financing agreement with the Government Development Bank. Implementation Date: 06/30/09 Responsible Person: Mr. José A. Romero Finance Division Manager

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF JAYUYA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Section II- Financial Statements Finding

FINDING NUMBER	08-II-01 (continuation)
REQUIREMENT	ACCOUNTING RECORDS AND FINANCIAL STATEMENTS
RECOMMENDATION	I recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system that provides for the preparation of financial statements in accordance with generally accepted accounting principles.
MANAGEMENT RESPONSE	The Municipality's Finance Department will establish internal controls and procedures in order to maintain a complete accounting system to provide for the preparation of financial statements in accordance with generally accepted accounting principles. Implementation Date: 06/30/09 Responsible Person: Mr. José A. Romero Finance Division Manager

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-10
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/ COST PRINCIPLES
CONDITION	<p>During my Disbursement test, I examined twenty-three (23) non payroll payment vouchers and noted the following conditions:</p> <ul style="list-style-type: none">• Two (2) purchase orders, for the design of two construction projects, were issued after the partial invoices of the supplier.• The Program paid four (4) invoices totaling \$9,490, related with the project "Visual Clinics". These invoices were for services rendered for the months of August, September and October 2007. The contract between the Municipality and the professionals expired in June 30, 2007. <p>Code of Federal Regulation 24, Subpart C, Section 85.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.</p>
CAUSE	<p>The Program failed to maintain an adequate control over the maintenance of the documents that justify the disbursement.</p>
EFFECT	<p>The Program is not in compliance with Code of Federal Regulation 24, Subpart C, Section 85.20 (b) (6).</p>
RECOMMENDATION	<p>I recommend management to continue strengthening the internal controls and procedures designed to appropriately review the payment voucher and all the supporting documentation prior to the issuance of a payment.</p>
QUESTIONED COSTS	<p>None</p>
MANAGEMENT RESPONSE	<p>This situation is an involuntary omission of the accounting area, when the two purchase orders were registered in March 2008, two months after the issuance of the invoices by the supplier. The Program failed to prepare the two purchase orders in time, but there were two contracts (2008-0087 and 2008-0086) formalized in September 25, 2007 with the supplier. In addition the services rendered by the supplier were for works included in the contracts. The other situation occurred because the contract (2007-0168) formalized in February 2007, was registered by the Contract Division of the Municipality for only six months instead of twelve months. To correct this situation we consulted with our legal advisor and prepared a complementary contract in December 2007.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-10
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/ COST PRINCIPLES
MANAGEMENT RESPONSE	These situations were isolated cases and we will continue improving our internal controls over the disbursement process. Implementation Date: Immediately Responsible Person: Ms. Ivette Ortiz- Program Director Mrs. Andrea Torres- Contract Division Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-11
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	During my Cash Management test, I noted that during the fiscal year 2007-2008, the Program maintained average balances of approximately \$17,510 in CDBG books. Also, I tested fifteen (15) requisitions received in the fiscal year and noted that sometimes the Municipality requested funds to the pass-through entity that were not disbursed on a reasonable lapse of time.
CRITERIA	Code of Federal Regulations 24, Subpart I, Section 570.489 (c) (1) stated that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement made by the grantee.
CAUSE	Federal Programs and Finance Department of the Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
EFFECT	The Municipality is not in compliance with, Code of Federal Regulations 24, Subpart I, CFR 570.489 (c) (1).
RECOMMENDATION	I recommend management to improve the controls over the disbursement process to minimize the time elapsed between transfer of funds by the pass through agency and the disbursement made by the Municipality.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We have improved our internal controls related with the cash management. We have established that when the pass through agency (OCAM) advice us that a check is ready, we start the disbursement process and then the voucher payments, generated in this process, are forwarded to the Finance Department of the Municipality, for the preparation of the checks. Once these vouchers are in the Finance Department, the process can take various days. We have advice the Finance Department in numerous occasions that this process has priority.

Implementation Date: 06/30/09

Responsible Person: Mr. José A. Romero
Finance Division Manager

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER 08-III-12

FEDERAL PROGRAM COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM

REQUIREMENT COMPLIANCE AND INTERNAL CONTROL

NONCOMPLIANCE PROCUREMENT, SUSPENSION AND DEBARMENT

CONDITION During my Contract test, I examined three (2) construction contracts and one (1) professional service contracts and noted the following in the construction contracts:

- Two (2) contracts did not include a provision for compliance with the Executive Order 11246 of Equal Employment Opportunities
- One (1) contract did not include a provision for compliance with Section 103 and 107 of the Contract Work Hours and Safety Standards
- One (1) contract did not include a provision for compliance with the Clear Air Act (42 U.S.C. 1857(h)), the Clear Water Act (33 U.S.C. 1368), Executive Order 11738, and the Environmental Protection
- Two (2) contracts did not include a provision with the Energy Policy and Conservation Act (Pub L. 94-163, 89 Stat 871)
- One (1) contract did not include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 276a to a-7) (29 CFR Part 5)

CRITERIA Code of Federal Regulations 24, Subpart C, Section 85.36 (i) (1-13) establishes all the required clauses that contracts should include.

CAUSE The Municipality did not maintain appropriate procurement standard procedures to assure that contracts include all the required clauses.

EFFECT The Municipality is not in compliance with Code of Federal Regulation 24, Subpart C, Section 85.36 (i) (1-13).

RECOMMENDATION I recommend management to update contract models according with the federal and state requirements.

QUESTIONED COSTS None

MANAGEMENT RESPONSE The Program has sent a contract model, supplied by OCAM, to the Contract Division of the Municipality, which includes all the required clauses by Federal Regulations.

Implementation Date: 06/30/09

Responsible Person: Mrs. Andrea Torres
Contract Division Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-13
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ELIGIBILITY
CONDITION	<p>During my Eligibility Test, I select a sample of thirty (30) participant's files; and noted that three (3) participant's files did not have evidence of the HUD-approved release and consent forms submitted by the family as required by federal regulation. In addition, I noted the following conditions:</p> <ul style="list-style-type: none">• For two (2) participant's families, the social security numbers of one member were not available for my examination and were not included in the participant's file.• For one (1) participant family, the birth certificate was not available for my examination and was not included in the participant's file.
CRITERIA	<p>Code of Federal Regulations, 24 CFR, Section 982.516 (g), states that as a condition of admission to or continued assistance under the program, the PHA shall require the family head, and such other family members as the PHA designates, to execute a HUD-approved release and consent form authorizing any depository or private source of income, or any federal, state or local agency, to furnish or release to the PHA or HUD such information as the PHA or HUD determines to be necessary. In addition, Sections 4 and 5 of the Administrative Plan, establish the required documentation for the determination of eligibility that the participants have to submit to the Program.</p>
CAUSE	<p>The Program does not have consent forms that authorize the collection of income information from State Wages Information Collection Agencies (SWICA), and wages, net earnings from self-employment, payments of retirement income, and unearned income as referenced at 26 U.S.C. 6103. In addition consent form may authorize the collection of other information from applicants and participant to determine eligibility or level of benefits. Also, the Program should request all the necessary information to the participants to verify their eligibility.</p>
EFFECT	<p>The Program is not in compliance with 24 CFR, Sections 982.516 (g) and the Administrative Plan.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-13
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
RECOMMENDATION	I recommended management to require each member of the family of an assistance applicant or participant who is at least 18 years of age, and each family head and spouse regardless of age, to sign a release form. In addition, management should be aware that all the documents that corroborate the eligibility of the participants are obtained.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Program has updated the check list documents in order to have a control of all documents required for reexamination. Implementation Date: Immediately Responsible Person: Ms. Ivette Ortiz Program Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-14
FEDERAL PROGRAMS	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	During my Reporting test, I noted that the amounts reported in the Voucher Management System, submitted to HUD, does not agree by \$5,365 with the accounting records of the Program. Also I noted that the bank reconciliation as of June 30, 2008, does not agree by \$6,217 with the balance of the cash account in the trial balance.
CRITERIA	Code of Federal Regulations, Subpart C, 24 CFR, Section 85.20 (a) (1) (OMB Common Rule) requires that fiscal control and accounting procedures must be sufficient to permit preparation of reports. Code of Federal Regulations, Subpart C, 24 CFR, Section 85.20 (b) (2) (OMB Common Rule) requires that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
CAUSE	Municipality did not submit accurate quarterly reports in order to comply with the federal regulation
EFFECT	The Municipality is not in compliance with Subpart C, 24 CFR, Section 85.20 (a) (1) and 85.20 (b) (2) of OMB Common Rule.
RECOMMENDATION	The Municipality should implement adequate procedures to ensure that financial information presented in its quarterly report agrees with the accounting records maintain by the Municipality.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	During an examination of the accounting records and the bank reconciliations, we found the differences and adjusted the accounting records. Implementation Date: Immediately Responsible Person: Ms. Ivette Ortiz Program Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-15
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS – Waiting List
CONDITION	During my Waiting List test, I noted that during the applicant's selection from the waiting list in order to become tenants (participants), the Program was not adequately documenting the method and order of selection and the preferences, if any of the participants. In addition, the waiting list does not specify the reasons to justify the fact that the Program was skipping applicants in order to approved vouchers to subsequent applicants.
CRITERIA	Code of Federal Regulations, 24 CFR, Section 982.204 (a) stated that except for special admissions, participants must be selected from the PHA waiting list. The PHA must select participants from the waiting list in accordance with admission policies in the PHA administrative plan.
CAUSE	The Program does not adequately document its applicant's selection from the waiting list.
EFFECT	The Program is not in compliance with 24 CFR, Section 982.203 (a) (2).
RECOMMENDATION	I recommended management to maintain supporting documentation regards its applicant's selection from the waiting list in order to become tenants (participants).
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Program has included a section in the waiting list were we will reflect more information of the selection process. Implementation Date: Immediately Responsible Person: Ms. Ivette Ortiz Program Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-16
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS – Utility Allowance Schedule
CONDITION	During my Utility Allowance Schedule test I noted that the Program has not reviewed the utility rate data within the last twelve (12) months.
CRITERIA	Code of Federal Regulations 24, Section 982.517 (4) (c) stated that the PHA must review its schedule of utility allowance each year, and must revise its allowance for a utility category if there has been a change of 10 percent (10%) or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowance and any revisions made in its utility allowance schedule.
CAUSE	The Program does not established procedures to ensure the accuracy of its utility allowance schedule.
EFFECT	The Program is not in compliance with 24 CFR, Section 982.517 (4)(c).
RECOMMENDATION	I recommended management to revise and update annually (if necessary) its utility allowance schedule as required by this compliance requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	We have requested the information to the respective agencies and have not received it. We will continue to follow up the requested information in order to complete the process.

Implementation Date: 06/30/09

Responsible Person: Ms. Ivette Ortiz
Program Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-17
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS – Housing Quality Standard (HQS) Enforcement
CONDITION	<p>During my test to verify if the Program follows the Housing Quality Standards Enforcement for the unit's inspections that failed, during the fiscal year, I noted the following conditions:</p> <ul style="list-style-type: none">• In two (2) units, the Program waited from seven (7) to fifteen (15) dates after the inspections to issue the communications to the responsible persons of the repairs.• In two (2) units, the correction period was ended and there was no evidence in the files that contains a unit inspection report other evidence of other verifications that the repairs were completed.• In one (1) unit, there was no evidence that the Program took action to enforce the family obligation.• There was no evidence of the inspection of one (1) initial inspection.
CRITERIA	<p>Code of Federal Regulations, 24 CFR, Subpart I, Section 982.404 (a) (3) established that the PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any PHA-approved extension)</p>
CAUSE	<p>The Municipality did not specified the times frames for the correction of the deficiencies, also the entity does not verified the correction of the Housing Quality Standards deficiencies; therefore, the Municipality fails to take prompt and vigorous action to enforce the owner and/or participants obligations.</p>
EFFECT	<p>The Municipality is not in compliance with 24 CFR, Subpart I, Section 982.404(a) (3).</p>
RECOMMENDATION	<p>I recommended management to continue strengthening the existing internal control procedures to assure that the units Housing Quality Standards deficiencies are corrected during the specified period established by the federal regulation.</p>
QUESTIONED COSTS	<p>None</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-17 (continuation)
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHERS (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS – Housing Quality Standard (HQS) Enforcement
MANAGEMENT RESPONSE	We have established an itinerary of inspections which will allow for reexaminations to be completed at least 30 days before the actual reexamination date. Implementation Date: Immediately Responsible Person: Ms. Ivette Ortiz Program Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER 08-III-18

**PUBLIC ASSISTANCE GRANT (CFDA NO. 97.036)
HOMELAND SECURITY PASS THROUGH STATE – OFFICE OF GOVERNOR
AUTHORIZED REPRESENTATIVE (GAR)**

REQUIREMENT COMPLIANCE AND INTERNAL CONTROL

NONCOMPLIANCE ALLOWABLE COST – COST PRINCIPLES

CONDITION I noted in my tests of the Municipality's internal control over disbursements process that the invoices for the following disbursements were not available for my examination:

PROGRAM	CONTRACTOR	DATE	CHECK NUMBER	AMOUNT
FEMA	Beginners General	08-03-07	1	\$ 16,971
FEMA	Beginners General	01-11-08	3	12,217
FEMA	Beginners General	08-03-07	6	29,032
	TOTAL			\$ 58,220

CRITERIA Subpart C, 44 CFR 13.20 (b) (3) OMB Common Rules requires to grantees and sub-grantees to maintain effective control and accountability over grants and sub-grants cash, real and personal property, and other assets, to assure them be used solely for authorized purpose. Also, 44 CFR 13.20 (b) (6), states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents.

CAUSE The Municipality did not maintain an adequate control over the recordkeeping of documents that justify the disbursements.

EFFECT The Municipality is not in compliance with Subpart C, 24 CFR 85.20 (b) (3) (6),

RECOMMENDATION I recommend the implementation of an adequate control over the recordkeeping of document that justifies the disbursements.

QUESTIONED COSTS \$58,220

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-18 (continuation)
FEDERAL PROGRAM	PUBLIC ASSISTANCE GRANTS – FEMA (CFDA 97.036) U.S. DEPARTMENT OF HOMELAND SECURITY PASS THROUGH – OFFICE OF THE GOVERNOR (GAR)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT STANDARDS
MANAGEMENT RESPONSE	The Municipality's Finance Department will implement an adequate control over the recordkeeping of documents that justifies the disbursements. Implementation Date: 06/30/09 Responsible Person: Mr. José A. Romero Finance Division Manager

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-19
FEDERAL PROGRAM	PUBLIC ASSISTANCE GRANTS – FEMA (CFDA 97.036) U.S. DEPARTMENT OF HOMELAND SECURITY PASS THROUGH – OFFICE OF THE GOVERNOR (GAR)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT STANDARDS
CONDITION	<p>During my contract provision test, I examined four (4) constructions contracts to verify the completeness of its clauses and noted that for the four (4) contracts, the following clauses were missing:</p> <ul style="list-style-type: none">• Compliance with the Executive Order 11246 of Equal Employment Opportunities.• Compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act.• Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.• Compliance with the Energy Policy and Conservation Act (Pub L. 94-163, 89 Stat 871).
CRITERIA	Code of Federal Regulations 44, Subpart C, Section 13.36 (i) (1-13) establishes all the require clauses that contracts should include.
CAUSE	The Municipality did not maintain appropriate procurement standard procedures to assure that contracts include all the required clauses.
EFFECT	The Municipality is not in compliance with Code of Federal Regulation 44, Subpart C, Section 13.36 (i) (1-13).
RECOMMENDATION	I recommend management to update contract model according with the federal requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	<p>The Federal Program Division will provide a contract model, which includes all the required clauses, to the Contract Division of the Municipality. Once this contract is available, the Contract Division will update the constructions and professional services contracts.</p>

Implementation Date: 06/30/09

Responsible Person: Mr. José A. Romero
Finance Division Manager

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

FINDING NUMBER	08-III-20
FEDERAL PROGRAM	PUBLIC ASSISTANCE GRANT (CFDA NO. 97.036) HOMELAND SECURITY PASS THROUGH STATE – OFFICE OF GOVERNOR AUTHORIZED REPRESENTATIVE (GAR)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TEST
CONDITION	During my Special Test, I examined five (5) Project Worksheets (PW) and noted that the (PW's) were not maintained as required by the Office of Governor Authorized Representative (GAR) (State), to support that costs incurred were in performance of eligible works, that approved works were completed, that the Projects were in compliance with the provisions of the FEMA-State Agreement, and that payments charged to Projects were made in accordance with 44 CFR section 13.21 payment provision.
CRITERIA	OMB Circular A-87 has established that any cost allocable to a particular Federal award must be adequately documented to be allowable. Subpart C, 44 CFR 13.20 (b) (6) has established that transactions posted on accounting records must be supported by such source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, contracts, sub-grant award documents, and others. Also, Subpart C, 44 CFR 13.20 (b) (3) requires to grantees and sub-grantees to maintain effective control and accountability over grants and sub-grants cash, real and personal property, and other assets, to assure them be used solely for authorized purposes.
CAUSE	There is not adequate internal control procedures implemented to assure compliance with OMB Circular A-87 and Subpart C, 44 CFR 13.20 (b) (3) (6).
EFFECT	The Municipality is not in compliance with OMB Circular A-87 and Subpart C, 44 CFR 13.20 (b) (3) (6).
RECOMMENDATION	The Municipality should implement internal control procedures in order to assure compliance with this requirement. The Municipality should follow internal control procedures instructed by the Office of Governor Authorized Representative (GAR).
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	The Administrator of the Municipality gave instructions to the Finance Department, to organize each Project Worksheet (PW). Each PW should include the formalized contracts with the contractors, copy of the voucher payments and cancelled checks and any other document that supports the disbursement of the PW.

Implementation Date: 04/01/09

Responsible Person: Mr. José A. Romero
Finance Division Manager

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

(1) Audit Findings that have been fully corrected:

Finding Number 06-III-04 Activities Allowed or Unallowed & Allowable Cost/ Cost Principle

CFDA Number 14.871

Questioned Cost \$24,000

Finding Number 06-III-04 Activities Allowed or Unallowed & Allowable Cost/ Cost Principle

Auditee Comments Final resolution from Housing and Urban Development (HUD).

Finding Number 07-III-06 Activities Allowed or Unallowed & Allowable Cost/ Cost Principle

CFDA Number 14.871

Questioned Cost \$24,000

Finding Number 06-III-04 Activities Allowed or Unallowed & Allowable Cost/ Cost Principle

Auditee Comments Final resolution from Housing and Urban Development (HUD).

(2) Audit Findings not corrected or partially corrected:

Finding Number 07-III-04 Cash Management

CFDA Number 14.228

Questioned Cost None

Auditee Comments The Municipality will establish more effective internal controls, which includes, instructions to the Federal Program's accountant, that funds should be reimbursed within five (5) days after being received from the pass through agency.

Finding Number 07-III-05 Procurement, suspension and debarment- Contract clauses

CFDA Number 14.228

Questioned Cost None

Auditee Comments The Municipality's management gave instructions to the Contract Division to establish a checklist that includes all the necessary clauses required by a contract that will be paid with federal funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

(2) Audit Findings not corrected or partially corrected:

Finding Number	07-III-07	Eligibility
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	The Municipality gave instructions to implement adequate internal control procedures to assure that the participants who are at least 18 years old sign the release form at the moment of reexamination.	
Finding Number	07-III-08	Reporting
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	The Municipality gave instructions to implement adequate internal controls to assure that the amounts transmitted quarterly, in the Voucher Management System agrees with the Program's accounting records.	
Finding Number	07-III-09	Special Tests- Waiting list
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	The Municipality will amend its administrative plan to put the availability of vouchers in competence.	
Finding Number	07-III-10	Special Tests- Utility allowance schedule
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	The Municipality gave instructions to the Program Coordinator to review the utility rate data for each utility category and if necessary, to adjust the utility allowance schedule.	
Finding Number	06-III-03	Procurement, Suspension and Debarment- Qualified quotations (Professional Services)
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	The Municipal Secretary can't accept or sign any contract without the compliance of competition for the professional services needed as established in the approved Municipal Procurement Regulation and the Commonwealth of Puerto Rico Office of the Comptroller Rules.	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

(3) Corrective action taken is significantly different from corrective action previously reported:

None

(4) Audit findings is no longer valid:

None

Welcome to the FDS Tool

Full Accrual Version 8.0

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Selected PHA: RQ069
PHA Name: MUNICIPALITY OF SALINAS
State/Territory: Puerto Rico

***Asset Management Type:** Non-Asset Management
***Submission Type:** Unaudited/ A-133
***Fiscal Year End:** June 30, 2008

***Submitter Email:** HUD_069@YAHOO.COM
***Executive Director Email:** HUD_069@YAHOO.COM

*Denotes required information



This Tool is only applicable for PFAs with Fiscal Years ending 06/30/2008, 09/30/2008, 12/31/2008, and 03/31/2009

Data Collection Form

PHA Code	RQ069
PHA Name	MUNICIPALITY OF SALINAS
Fiscal Year End Date	June 30, 2008
Submission Type	Non-Asset Management

Element	Description	Value
G9000-010	Fiscal Year End Date	6/30/2008
G2000-021	Reporting Period Covered	ANNUAL
G2000-031	Reporting Period Covered - Months	
G9000-020	Employer Identification Number	6604353.11
G2000-040	Multiple EIN Indicator	No
G9000-030	Data Universal Numbering System (DUNS) Number	
G2000-050	Multiple DUNS Indicator	No
G9100-011	Entity Name	MUNICIPALITY OF SALINAS
G9100-021	Entity Street Address Line 1	PO BOX 1149
G9100-031	Entity Street Address Line 2	
G9100-041	Entity City	SALINAS
G9100-051	Entity State	PUERTO RICO
G9100-061	Entity Zip Code	00751
G9100-066	Entity Zip Code Extension	
G2100-011	Entity Contact First Name	CARLOS
G2100-021	Entity Contact Middle Initial	J
G2100-031	Entity Contact Last Name	RODRIGUEZ
G2100-041	Entity Contact Title	MAYOR
G2100-051	Entity Contact Telephone	787-824-3030
G2100-061	Entity Contact Extension	
G2100-071	Entity Contact Fax	787-824-4792
G2100-081	Entity Contact Email	HUD_069@YAHOO.COM
G2100-090	Date Approved by Certifying Official	3/26/2008
G2100-100	Certifying Official First Name	CARLOS
G2100-110	Certifying Official Middle Initial	J
G2100-120	Certifying Official Last Name	RODRIGUEZ
G2100-130	Certifying Official Title	MAYOR
G2200-010	Auditor Name	CPA PEDRO C. ORTIZ
G2200-020	Auditor Street Address Line 1	PO BOX 352
G2200-030	Auditor Street Address Line 2	
G2200-040	Auditor City	GUYAMA
G2200-050	Auditor State	PUERTO RICO
G2200-060	Auditor Zip Code	00785

G2200-065	Auditor Zip Code Extension	
G2200-070	Auditor Contact First Name	PEDRO
G2200-080	Auditor Contact Middle Initial	C
G2200-090	Auditor Contact Last Name	ORTIZ
G2200-100	Auditor Contact Title	SOLE PRACTITIONER
G2200-110	Auditor Contact Telephone	787-319-6587
G2200-120	Auditor Contact Extension	
G2200-130	Auditor Contact Fax	787-864-5590
G2200-140	Auditor Contact Email	cpapedroc@hotmail.com
G2200-150	Fee Accountant Name	
G2200-160	Fee Accountant Street Address Line 1	
G2200-170	Fee Accountant Street Address Line 2	
G2200-180	Fee Accountant City	
G2200-190	Fee Accountant State	
G2200-200	Fee Accountant Zip Code	
G2200-210	Fee Accountant Zip Code Extension	
G2200-220	Fee Accountant Contact First Name	
G2200-230	Fee Accountant Contact Middle Initial	
G2200-240	Fee Accountant Contact Last Name	
G2200-250	Fee Accountant Contact Title	
G2200-260	Fee Accountant Contact Telephone	
G2200-270	Fee Accountant Contact Extension	
G2200-280	Fee Accountant Contact Fax	
G2200-290	Fee Accountant Contact Email	

G4100-030 Total Federal Awards \$

CFDA #	Name of Federal Program	Details
14.871	Housing Choice Vouchers	

Cyan - Colored Cells are Self - Populating

Yellow - Colored Cells are Detail Links

Gray - Colored Cells are disallowed entry

14,871

Line Item No.	Description	Total Programs	Housing Choice Vouchers
111	Cash-unrestricted	\$ 28,810	\$28,810
112	Cash-restricted-modernization and development	\$ -	
113	Cash-other restricted	\$ -	
114	Cash-tenant security deposits	\$ -	
115	Cash - Restricted for payment of current liability	\$ -	
100	Total Cash	\$ 28,810	\$ 28,810
121	Accounts receivable - PHA projects	\$ 31,652	\$31,652
122-010	Accounts receivable - HUD other projects - Operating Subsidy	\$ -	
122-020	Accounts receivable - HUD other projects - Capital fund	\$ -	
122-030	Accounts receivable - HUD other projects - Other	\$ -	
122	Accounts receivable - HUD other projects	\$ -	
124	Account receivable - other government	\$ -	
125-010	Account receivable - miscellaneous - Not For Profit	\$ -	
125-020	Account receivable - miscellaneous - Partnership	\$ -	
125-030	Account receivable - miscellaneous - Joint Venture	\$ -	
125-040	Account receivable - miscellaneous - Tax Credit	\$ -	
125-050	Account receivable - miscellaneous - Other	\$ -	
125-060	Other - Comment	\$ -	
125	Account receivable - miscellaneous	\$ -	
126	Accounts receivable - tenants	\$ -	
126.1	Allowance for doubtful accounts - tenants	\$ -	
126.2	Allowance for doubtful accounts - other	\$ -	
127	Notes, Loans, & Mortgages Receivable - Current	\$ -	
128	Fraud recovery	\$ -	
128.1	Allowance for doubtful accounts - fraud	\$ -	
129	Accrued interest receivable	\$ -	
120	Total receivables, net of allowance for doubtful accounts	\$ 31,652	\$ 31,652
131	Investments - unrestricted	\$ -	
132	Investments - restricted	\$ -	
135	Investments - Restricted for payment of current liability	\$ -	
142	Prepaid expenses and other assets	\$ -	
143	Inventories	\$ -	
143.1	Allowance for obsolete inventories	\$ -	
144	Inter program - due from	\$ -	
145	Assets held for sale	\$ -	
150	Total Current Assets	\$ 60,462	\$ 60,462
161	Land	\$ -	
162	Buildings	\$ -	
163	Furniture, equipment and machinery - dwellings	\$ -	
164	Furniture, equipment and machinery - administration	\$ 1,112	\$1,112
165	Leasehold improvements	\$ -	
166	Accumulated depreciation	\$ (1,112)	-\$1,112
167	Construction in progress	\$ -	
168	Infrastructure	\$ -	
160	Total capital assets, net of accumulated depreciation	\$ -	\$ -

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14.871

Line Item No.	Description	Total Programs	Housing Choice Vouchers
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171-010	Notes, Loans, & mortgages receivable - Non-current - Not For Profit	\$	
171-020	Notes, Loans, & mortgages receivable - Non-current - Partnership	\$	
171-030	Notes, Loans, & mortgages receivable - Non-current - Joint Venture	\$	
171-040	Notes, Loans, & mortgages receivable - Non-current - Tax Credit	\$	
171-050	Notes, Loans, & mortgages receivable - Non-current - Other	\$	
171-060	Other - Comment		
171	Notes, Loans, & mortgages receivable - Non-current	\$	
172-010	Notes, Loans, & mortgages receivable - Non-current - past due - Not For Profit	\$	
172-020	Notes, Loans, & mortgages receivable - Non-current - Partnership	\$	
172-030	Notes, Loans, & mortgages receivable - Non-current - Joint Venture	\$	
172-040	Notes, Loans, & mortgages receivable - Non-current - Tax Credit	\$	
172-050	Notes, Loans, & mortgages receivable - Non-current - Other	\$	
172-060	Other - Comment		
172	Notes, Loans, & mortgages receivable - Non-current - past due	\$	
173	Grants receivable - Non-current	\$	
174-010	Other assets - Not For Profit	\$	
174-020	Other assets - Partnership	\$	
174-030	Other assets - Joint Venture	\$	
174-040	Other assets - Tax Credit	\$	
174-050	Other assets - Other	\$	
174-060	Other - Comment		
174	Other assets	\$	
176-010	Investment in Joint venture - Not For Profit	\$	
176-020	Investment in Joint venture - Partnership	\$	
176-030	Investment in Joint venture - Joint Venture	\$	
176-040	Investment in Joint venture - Tax Credit	\$	
176-050	Investment in Joint venture - Other	\$	
176-060	Other - Comment		
176	Investment in joint venture	\$	
180	Total Non-current Assets	\$	\$

190	Total Assets	\$ 60,462	\$ 60,462
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311	Bank overdraft	\$	
312	Accounts payable <= 90 days	\$	
313	Accounts payable > 90 days past due	\$	
321	Accrued wage/payroll taxes payable	\$ 13,602	\$13,602
322	Accrued compensated absences - current portion	\$	
324	Accrued contingency liability	\$	
325	Accrued interest payable	\$	
331-010	Accounts payable - HUD PHA Programs - Operating Subsidy	\$	
331-020	Accounts payable - HUD PHA Programs - Capital fund	\$	
331-030	Accounts payable - HUD PHA Programs - Other	\$	
331	Accounts payable - HUD PHA Programs	\$	
332	Accounts payable - PHA Projects	\$	
333	Accounts payable - other government	\$	
341	Tenant security deposits	\$	
342-010	Deferred revenue - Operating Subsidy	\$	

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14,871

Line Item No.	Description	Total Programs	Housing Choice Vouchers
342-020	Deferred revenue - Capital fund		
342-030	Deferred revenue - Other		
342	Deferred revenue		
343-010	CFFP		
343-020	Capital Projects/ Mortgage Revenue		
343	Current portion of long-term debt - capital projects/mortgage revenue bonds		
344	Current portion of long-term debt - operating borrowings		
345	Other current liabilities		
346	Accrued liabilities - other		
347	Inter program - due to		
348-010	Loan liability - current - Not For Profit		
348-020	Loan liability - current - Partnership		
348-030	Loan liability - current - Joint Venture		
348-040	Loan liability - current - Tax Credit		
348-050	Loan liability - current - Other		
348-060	Other - Comment		
348	Loan liability - current		
310	Total Current Liabilities	13,602	13,602

351-010	Long-term debt - CFFP		
351-020	Long-term - Capital Projects/ Mortgage Revenue		
351	Capital Projects/ Mortgage Revenue Bonds		
352	Long-term debt, net of current - operating borrowings		
353	Non-current liabilities - other		
354	Accrued compensated absences- Non-current		
355-010	Loan liability - Non-current - Not For Profit		
355-020	Loan liability - Non-current - Partnership		
355-030	Loan liability - Non-current - Joint Venture		
355-040	Loan liability - Non-current - Tax Credit		
355-050	Loan liability - Non-current - Other		
355-060	Other - Comment		
355	Loan liability - Non-current		
356	FASB 5 Liabilities		
357	Accrued Pension and OPEB Liability		
350	Total Non-current liabilities		

300	Total Liabilities	13,602	13,602
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508.1	Invested in capital assets, net of related debt		
511.1	Restricted Net Assets	42,575	42,575
512.1	Unrestricted Net Assets	4,285	4,285
513	Total Equity/Net Assets	46,860	46,860

600	Total Liabilities and Equity/Net assets	60,462	60,462
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Income Statement			
70300	Net tenant rental revenue		

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14.871

Line Item No.	Description	Total Programs	Housing Choice Vouchers
70400	Tenant revenue - other	\$ -	
70500	Total Tenant Revenue	\$ -	\$ -

70600-010	Housing assistance payments	\$ 373,038	\$373,038
70600-020	Ongoing administrative fees earned	\$ 44,306	\$44,306
70600-030	Hard to house fee revenue	\$ -	
70600-031	FSS Coordinator	\$ -	
70600-040	Actual independent public accountant audit costs	\$ -	
70600-050	Total preliminary fees earned	\$ -	
70600-060	All other fees	\$ -	
70600-070	Admin fee calculation description	\$ -	
70600	HUD PHA operating grants	\$ 417,344	\$ 417,344

70610	Capital grants	\$ -	
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70710	Management Fee	\$ -	
70720	Asset Management Fee	\$ -	
70730	Book-Keeping Fee	\$ -	
70740	Front Line Service Fee	\$ -	
70750	Other Fees	\$ -	
70700	Total Fee Revenue	\$ -	

70800	Other government grants	\$ -	
71100-010	Housing Assistance Payment	\$ -	
71100-020	Administrative Fee	\$ -	
71100	Investment income - unrestricted	\$ -	\$ -
71200	Mortgage interest income	\$ -	
71300	Proceeds from disposition of assets held for sale	\$ -	
71310	Cost of sale of assets	\$ -	
71400-010	Housing Assistance Payment	\$ -	
71400-020	Administrative Fee	\$ -	
71400	Fraud recovery	\$ -	\$ -
71500	Other revenue	\$ 3,812	\$3,812
71600	Gain or loss on sale of capital assets	\$ -	
72000-010	Housing Assistance Payment	\$ -	
72000-020	Administrative Fee	\$ -	
72000	Investment income - restricted	\$ -	\$ -
70000	Total Revenue	\$ 421,156	\$ 421,156

91100	Administrative salaries	\$ 31,030	\$31,030
91200	Auditing fees	\$ -	
91300	Management Fee	\$ -	
91310	Book-Keeping Fee	\$ -	
91400	Advertising and Marketing	\$ -	
91500	Employee benefit contributions - administrative	\$ 10,909	\$10,909
91600	Office Expenses	\$ 9,271	\$9,271
91700	Legal Expense	\$ -	
91800	Travel	\$ -	
91810	Allocated Overhead	\$ -	

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Line Item No.	Description	Total Programs	Housing Choice Vouchers
			14,871
91900	Other	\$ -	
91000	Total Operating-Administrative	\$ 51,210	\$ 51,210
92000	Asset Management Fee	\$ -	
92100	Tenant services - salaries	\$ -	
92200	Relocation Costs	\$ -	
92300	Employee benefit contributions - tenant services	\$ -	
92400	Tenant services - other	\$ -	
92500	Total Tenant Services	\$ -	\$ -
93100	Water	\$ -	
93200	Electricity	\$ -	
93300	Gas	\$ -	
93400	Fuel	\$ -	
93500	Labor	\$ -	
93600	Sewer	\$ -	
93700	Employee benefit contributions - utilities	\$ -	
93800	Other utilities expense	\$ -	
93000	Total Utilities	\$ -	\$ -
94100	Ordinary maintenance and operations - labor	\$ -	
94200	Ordinary maintenance and operations - materials and other	\$ -	
94300-010	Ordinary Maintenance and Operations Contracts - Garbage and Trash Removal Contracts	\$ -	
94300-020	Ordinary Maintenance and Operations Contracts - Heating & Cooling Contracts	\$ -	
94300-030	Ordinary Maintenance and Operations Contracts - Snow Removal Contracts	\$ -	
94300-040	Ordinary Maintenance and Operations Contracts - Elevator Maintenance Contracts	\$ -	
94300-050	Ordinary Maintenance and Operations Contracts - Landscape & Grounds Contracts	\$ -	
94300-060	Ordinary Maintenance and Operations Contracts - Unit Turnaround Contracts	\$ -	
94300-070	Ordinary Maintenance and Operations Contracts - Electrical Contracts	\$ -	
94300-080	Ordinary Maintenance and Operations Contracts - Plumbing Contracts	\$ -	
94300-090	Ordinary Maintenance and Operations Contracts - Extermination Contracts	\$ -	
94300-100	Ordinary Maintenance and Operations Contracts - Janitorial Contracts	\$ -	
94300-110	Ordinary Maintenance and Operations Contracts - Routine Maintenance Contracts	\$ -	
94300-120	Ordinary Maintenance and Operations Contracts - Misc Contracts	\$ -	
94300	Ordinary Maintenance and Operations Contracts	\$ -	\$ -
94500	Employee benefit contribution - ordinary maintenance	\$ -	
94000	Total Maintenance	\$ -	\$ -
95100	Protective services - labor	\$ -	
95200	Protective services - other contract costs	\$ -	
95300	Protective services - other	\$ -	
95500	Employee benefit contributions - protective services	\$ -	
95000	Total Protective Services	\$ -	\$ -

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14.871

Line Item No.	Description	Total Programs	Housing Choice Vouchers
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96110	Property Insurance	\$ -	
96120	Liability Insurance	\$ -	
96130	Workmen's Compensation	\$ -	
96140	All Other Insurance	\$ -	
96100	Total Insurance Premiums	\$ -	\$ -

96200	Other general expenses	\$ -	
96210	Compensated absences	\$ -	
96300	Payments in lieu of taxes	\$ -	
96400	Bad debt - tenant rents	\$ -	
96500	Bad debt - mortgages	\$ -	
96600	Bad debt - other	\$ -	
96800	Severance expense	\$ -	
96000	Total Other General Expenses	\$ -	\$ -

96710	Interest of Mortgage (or Bonds) Payable	\$ -	
96720	Interest on Notes Payable (Short and Long Term)	\$ -	
96730	Amortization of Bond Issue Costs	\$ -	
96700	Total Interest Expense and Amortization Cost	\$ -	\$ -

96900	Total Operating Expenses	\$ 51,210	\$ 51,210
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97000	Excess Revenue Over Operating Expenses	\$ 369,946	\$ 369,946
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97100	Extraordinary maintenance	\$ -	
97200	Casualty losses- Non-capitalized	\$ -	
97300-010	Mainstream 1 & 5 year	\$ -	
97300-020	Home-Ownership	\$ -	
97300-025	Litigation	\$ -	
97300-030	Hope IV	\$ -	
97300-035	Moving to Work	\$ -	
97300-040	Tenant Protection	\$ -	
97300-050	All Other	\$ 345,442	\$345,442
97300	Housing assistance payments	\$ 345,442	\$ 345,442
97350	HAP Portability-in	\$ -	
97400	Depreciation expense	\$ -	
97500	Fraud losses	\$ -	
97800	Dwelling units rent expense	\$ -	
90000	Total Expenses	\$ 396,652	\$ 396,652

10010	Operating transfer in	\$ -	
10020	Operating transfer out	\$ -	
10030-010	Not For Profit	\$ -	
10030-020	Partnership	\$ -	
10030-030	Joint Venture	\$ -	
10030-040	Tax Credit	\$ -	
10030-050	Other	\$ -	
10030-060	Other Comment	\$ -	

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14,871

Line Item No.	Description	Total Programs	Housing Choice Vouchers
10030	Operating transfers from / to primary government	\$ -	
10040	Operating transfers from / to component unit	\$ -	
10070	Extraordinary items, net gain/loss	\$ -	
10080	Special items, net gain/loss	\$ -	
10091	Inter Project Excess Cash Transfer In	\$ -	
10092	Inter Project Excess Cash Transfer Out	\$ -	
10093	Transfers between Programs and Projects - in	\$ -	
10094	Transfers between Programs and Projects - out	\$ -	
10100	Total other financing sources (uses)	\$ -	\$ -
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ 24,504	\$ 24,504
11020	Required Annual Debt Principal Payments	\$ -	
11030	Beginning equity	\$ -	
11040-010	Prior period adjustments and correction of errors - Editable	\$ -	
11040-020	Prior period adjustments and correction of errors - Editable	\$ -	
11040-030	Prior period adjustments and correction of errors - Editable	\$ -	
11040-040	Prior period adjustments and correction of errors - Editable	\$ -	
11040-050	Prior period adjustments and correction of errors - Editable	\$ -	
11040-060	Prior period adjustments and correction of errors - Editable	\$ -	
11040-070	Equity Transfers	\$ -	
11040-080	Equity Transfers	\$ -	
11040-090	Equity Transfers	\$ -	
11040-100	Equity Transfers	\$ -	
11040-110	Equity Transfers	\$ -	
11040	Prior period adjustments, equity transfers, and correction of errors	\$ -	\$ -
11170-001	Administrative Fee Equity- Beginning Balance	\$ 7,377	\$ 7,377
11170-010	Administrative Fee Revenue	\$ 44,306	\$ 44,306
11170-020	Hard to House Fee Revenue	\$ -	\$ -
11170-021	FSS Coordinator Grant	\$ -	\$ -
11170-030	Audit Costs	\$ -	\$ -
11170-040	Investment Income	\$ -	\$ -
11170-045	Fraud Recovery Revenue	\$ -	\$ -
11170-050	Other Revenue	\$ 3,812	\$ 3,812
11170-051	Comment for Other Revenue	\$ -	PORTABILITIE S FEES
11170-060	Total Admin Fee Revenues	\$ 48,118	\$ 48,118
11170-080	Total Operating Expenses	\$ 51,210	\$ 51,210
11170-090	Depreciation	\$ -	\$ -
11170-095	Housing Assistance Portability In	\$ -	\$ -
11170-100	Other Expenses	\$ -	
11170-101	Comment for Other Expense	\$ -	
11170-110	Total Expenses	\$ 51,210	\$ 51,210
11170-002	Net Administrative Fee	\$ (3,092)	\$ (3,092)
11170-003	Administrative Fee Equity- Ending Balance	\$ 4,285	\$ 4,285
11170	Administrative Fee Equity	\$ 4,285	\$ 4,285

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14.871

Line Item No.	Description	Total Programs	Housing Choice Vouchers
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11180-001	Housing Assistance Payments Equity - Begining Balance	\$ 14,979	\$14,979
11180-010	Housing Assistance Payment Revenues	\$ 373,038	\$ 373,038
11180-015	Fraud Recovery Revenue	\$ -	\$ -
11180-020	Other Revenue	\$ -	\$ -
11180-021	Comment for Other Revenue	\$ -	\$ -
11180-025	Investment Income	\$ -	\$ -
11180-030	Total HAP Revenues	\$ 373,038	\$ 373,038
11180-080	Housing Assistance Payments	\$ 345,442	\$ 345,442
11180-090	Other Expenses	\$ -	\$ -
11180-091	Comments for Other Expenses	\$ -	\$ -
11180-100	Total Housing Assistance Payments Expenses	\$ 345,442	\$ 345,442
11180-002	Net Housing Assistance Payments	\$ 27,596	\$ 27,596
11180-003	Housing Assistance Payments Equity-Ending Balance	\$ 42,575	\$ 42,575
11180	Housing Assistance Payments Equity	\$ 42,575	\$ 42,575

11190-210	Total ACC HCV Units	1164	1,164
11190-220	Unfunded Units	0	
11190-230	Other Adjustments		
11190	Unit Months Available	1164	1164
11210	Unit Months Leased	946	946

11270	Excess Cash	\$ -	
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11610	Land Purchases	\$ -	
11620	Building Purchases	\$ -	
11630	Furniture & Equipment-Dwelling Purchases	\$ -	
11640	Furniture & Equipment-Administrative Purchases	\$ -	
11650	Leasehold Improvements Purchases	\$ -	
11660	Infrastructure Purchases	\$ -	
13510	CFFP Debt Service Payments	\$ -	
13901	Replacement Housing Factor Funds	\$ -	

Data Validation Sheet

Description	Value
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Balance Sheet

Total Current Assets	\$ 60,462	PASS
Total Non-Current Assets		PASS
Total Assets	\$ 60,462	PASS

Total Current Liabilities	\$ 13,602	PASS
Total Non-Current Liabilities		PASS
Total Liabilities	\$ 13,602	PASS

Total Equity/Net Assets	\$ 46,860	PASS
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Total Liabilities and Equity/Net Assets	\$ 60,462	PASS
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Income Statement

Total Revenue	\$ 421,156	PASS
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Total Expenses	\$ 396,652	PASS
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**MUNICIPALITY OF SALINAS
CORRECTIVE ACTION PLAN FOR THE 2008 SINGLE AUDIT FINDINGS**

CJRM

Single Audit Report 2007-2008

Designated Official: Carlos J. Rodriguez Mateo, MD, Mayor

Designated Person in Charge: Ms. Ivette Ortiz Zayas, Federal Programs Director

Telephone: (787) 824-5310 Fax: (787) 824-4549

Date: March 27, 2009

CDBG Program Findings

Finding	Corrective Action Plan	Expected Result	Person In Charge	Date of Accomplishment
<p>08-III-10 Allowable Cost/Cost Principles</p> <p>During my Disbursement test, I examined twenty-three (23) non payroll payments vouchers and noted the following conditions:</p> <ul style="list-style-type: none"> • Two (2) purchase orders, for the design of two construction projects, were issued after the partial invoices of the supplier. • The Program paid four (4) invoices totaling \$9,940.00, related with the project "Visual Clinics". These invoices were for services rendered for the months of August, September and October 2007. The contract between the Municipality and the professionals expired in June 30, 2007. <p>Criteria: Code of Federal Regulations 45, Subpart C, Section 92.20 (a) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents, etc.</p>	<p>This situation is an involuntary omission of the accounting area when the two purchase orders were registered in March 2008, two months after the issuance of the invoices by the supplier. The Program failed to prepare the two purchase orders in time, but there were two contracts (2008-0087 and 2008-0086) formalized in September 25, 2007 with the supplier. In addition the services rendered by the supplier were for works included in the contracts. The other situation occurred because the contract (2007-0168) formalized In February 2007, was registered by the Contract Division of the Municipality for only six (6) months instead of twelve (12) months. To correct this situation we consulted with our legal advisor and prepared a complementary contract in December 2007.</p> <p>These situations were isolated cases and we will continue improving our internal controls over the disbursement process.</p> <p>Implementation Date: Immediately</p> <p>Responsible Persons: Maria E. Sánchez, CDBG Accountant Andrea Torres, Municipal Secretary</p>	N/A	N/A	N/A

**MUNICIPALITY OF SALINAS
CORRECTIVE ACTION PLAN FOR THE 2008 SINGLE AUDIT FINDINGS**

Single Audit Report 2007-2008

Designated Person in Charge: Ms. Ivette Ortiz Zayas, Federal Programs Director

Date: March 27, 2009

Designated Official: Carlos J. Rodriguez Mateo, MD, Mayor

Telephone: (787) 824-5310 **Fax:** (787) 824-4549

CDBG Program Findings

Finding	Corrective Action Plan	Expected Result	Person In Charge	Date of Accomplishment
<p>08-III-11 Cash Management</p> <p>During my Cash Management Test, I noted that during the fiscal year 2007-2008, the Program maintained average balances of approximately \$17,510.00 in CDBG books. Also, I tested fifteen (15) requisitions received in the fiscal year and notes that sometimes the Municipality requested funds to the past-through entity that were not disbursed on a reasonable lapse of time.</p> <p>Criteria: Code of Federal Regulations 24, Subpart I, Section 570.489 (c) (1) stated that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement made by the grantee.</p>	<p>We have improved our internal controls related with the cash management. We have established that when the pass through agency (OCAM) advice us that a check is ready, we start the disbursement process and then the voucher payments, generated in this process, are forwarded to the Finance Department of the Municipality for the preparation of the checks. Once these vouchers are in the Finance Department, the process can take various days. We have advice the Finance Department in numerous occasions that this process has priority.</p> <p>Implementation Date: June 30, 2009</p> <p>Responsible Person: José A. Romero, Finance Department Director</p>	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>

**MUNICIPALITY OF SALINAS
CORRECTIVE ACTION PLAN FOR THE 2007 SINGLE AUDIT FINDINGS**

CJRM
(MI)

Single Audit Report 2007-2008

Designated Official: Carlos J. Rodriguez Mateo, MD, Mayor

Designated Person in Charge: Ms. Ivette Ortiz Zayas, Federal Programs Director

Telephone: (787) 824-5310 Fax: (787) 824-4549

Date: March 27, 2009

CDBG Program Findings

Finding	Corrective Action Plan	Expected Result	Person In Charge	Date of Accomplishment
<p>08-III-12 Procurement, Suspension and Debarment</p> <p>During my Contract Test, I examine three (3) construction contracts and one (1) professional service contract and note the following in the contracts.</p> <ul style="list-style-type: none"> • Two (2) contracts did not include a provision for compliance with the Executive Order 11246 of Equal Employment Opportunities. • One (1) contract did not include a provision for compliance with Section 103 and 107 of the Contract Work Hours and Safety Standards. • One (1) contract did not include a provision for compliance with the Clear Air Act (42 USC 1857 (h), the Clear Water Act (33 USC 1368), Executive Order 11738, and the Environmental Protection. • Two (2) contracts did not include a provision with the Energy Policy and Conservation Act (Pub L. 94-163, 89 Stat 871). • One (1) contract did not include a provision for compliance with the Davis-Bacon Act (40 USC 276a to a-7) (29 CFR Part 5). <p>Criteria: Code of Federal Regulations 24, Subpart C, Section 85.36 (i) (1-13) established all the required clauses that contracts should include.</p>	<p>The Program has sent contract mode, supplied by OCAM, to the Contract Division of the Municipality, which includes all the required clauses by Federal Regulations.</p> <p>Implementation Date: June 30, 2009</p> <p>Responsible Person: Andrea Torres, Municipal Secretary</p>	<p align="center">N/A</p>	<p align="center">N/A</p>	<p align="center">N/A</p>

**MUNICIPALITY OF SALINAS
CORRECTIVE ACTION PLAN FOR THE 2007 SINGLE AUDIT FINDINGS
HOUSING ASSISTANCE VOUCHER PROGRAM (SECTION 8)**

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Single Audit Report 2007-2008

Designated Official: Carlos J. Rodriguez Mateo, MD, Mayor

Designated Person in Charge: Ms. Ivette Ortiz Zayas, Federal Programs Director

Telephone: (787) 824-5310

Fax: (787) 824-4549

Date: March 27, 2009

Section Eight Program Findings

Finding	Corrective Action Plan	Expected Result	Person In Charge	Date of Accomplishment
<p>08-III-13 Eligibility</p> <p>During my Eligibility Test, I select a sample of thirty (30) participant's files; and noted that three (3) participant's files did not have evidence of the HUD-approved release and consent forms submitted by the family as required by federal regulation. In addition, I noted the following conditions:</p> <ul style="list-style-type: none"> • For two (2) participant's families, the social security numbers of one member were not available for my examination and were not included in the participant's file. • For one (1) participant family, the birth certificate was not available for my examination and was not included in the participant's file. <p>Criteria: Code of Federal Regulations, 24 CFR, Section 982.516 (g), states that as a condition of admission to or continued assistance under the program, the PHA shall require the family head, and such other family members as the PHA designates, to execute a HUD-approved release and consent form authorizing any depository or private source of income, or any federal, state or local agency, to furnish or release to the PHA or HUD such information as the PHA or HUD determines to be necessary. In addition, Sections 4 and 5 of the Administrative Plan, establish the required documentation for the determination of eligibility that the participants have to submit to the Program.</p>	<p>The Program has updated the check list documents in order to have a control of all documents required for reexamination.</p> <p>Implementation Date: Immediately</p> <p>Responsible Person: José R. Garcia, Section 8 Coordinator</p>	N/A	N/A	N/A

**MUNICIPALITY OF SALINAS
CORRECTIVE ACTION PLAN FOR THE 2007 SINGLE AUDIT FINDINGS
HOUSING ASSISTANCE VOUCHER PROGRAM (SECTION 8)**



Single Audit Report 2007-2008

Designated Official: Carlos J. Rodriguez Mateo, MD, Mayor

Designated Person in Charge: Ms. Ivette Ortiz Zayas, Federal Programs Director

Telephone: (787) 824-5310

Fax: (787) 824-4549

Date: March 27, 2009

Section Eight Program Findings

Finding	Corrective Action Plan	Expected Result	Person In Charge	Date of Accomplishment
<p>08-III-14 Reporting</p> <p>During my Reporting Test, I noted that the amounts reported in the Voucher Management System, submitted to HUD, does not agree by \$5,365.00 with the accounting records of the Program. Also, I noted that the bank reconciliation as of June 30, 2008, does not agree by \$6,217.00 with the balance of the cash account in the trial balance.</p> <p>Criteria: Code of Federal Regulations, Subpart C, 24 CFR, Section 82.50 (a) (1) (OMB Common Rule) requires that fiscal control and accounting procedures must be sufficient to permit preparation of reports. Code of Federal Regulations, Subpart C, 24 CFR, Section 85.20 (b) (2) (OMB Common Rule) requires that grantees and sub grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income.</p>	<p>During the examination of the accounting records and the bank reconciliations, we found the differences and adjust the accounting records.</p> <p>Implementation Date: Immediately</p> <p>Responsible Person: Enrique Melero, Section 8 Accountant</p>	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>

**MUNICIPALITY OF SALINAS
CORRECTIVE ACTION PLAN FOR THE 2007 SINGLE AUDIT FINDINGS
HOUSING ASSISTANCE VOUCHER PROGRAM (SECTION 8)**

Single Audit Report 2007-2008

Designated Person in Charge: Ms. Ivette Ortiz Zayas, Federal Programs Director

Date: March 27, 2009

Designated Official: Carlos J. Rodriguez Mateo, MD, Mayor

Telephone: (787) 824-5310 **Fax:** (787) 824-4549

Section Eight Program Findings

Finding	Corrective Action Plan	Expected Result	Person In Charge	Date of Accomplishment
<p>08-III-15 Special Tests and Provisions – Waiting List</p> <p>During my Waiting List Test, I noted that during the applicant's selection from the waiting list in order to become tenants (participants), the Program was not adequately documenting the method and order of selection and the preferences, if any of the participants. In addition, the waiting list does not specify the reasons to justify the fact that the Program was skipping applicants in order to approved vouchers to subsequent applicants.</p> <p>Criteria: Code of Federal Regulations, 24 CFR, Section 982.204 (a) stated that except for special admissions, participants must be selected from the PHA waiting list. The PHA must select participants from the waiting list in accordance with admission policies in the PHA administrative plan.</p>	<p>The Program has included a section in the waiting list where we will reflect more information of the selection process.</p> <p>Implementation Date: Immediately</p> <p>Responsible Person: Ivette Ortiz Zayas, Federal Programs Director</p>	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>

MUNICIPALITY OF SALINAS
CORRECTIVE ACTION PLAN FOR THE 2007 SINGLE AUDIT FINDINGS
HOUSING ASSISTANCE VOUCHER PROGRAM (SECTION 8)

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Single Audit Report 2007-2008

Designated Official: Carlos J. Rodriguez Mateo, MD, Mayor

Designated Person in Charge: Ms. Ivette Ortiz Zayas, Federal Programs Director

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Section Eight Program Findings

Finding	Corrective Action Plan	Expected Result	Person In Charge	Date of Accomplishment
<p>08-III-16 Special Test and Provisions – Utility Allowance Schedule</p> <p>During my Utility Allowance Schedule Test, I noted that the Program has not reviewed the utility rate data within the last twelve (12) months.</p> <p>Criteria: Code of Federal Regulations, 24 CFR, Section 982.517 (4) (c) stated that the PHA must review its schedule of utility allowance each year, and must revise its allowance for a utility category if there has been a change of 10 percent (10%) or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowance and any revisions made in its utility allowance schedule.</p>	<p>We have requested the information to the respective agencies and have not received it. We will continue to follow up the requested information in order to complete the process.</p> <p>Implementation Date: June 30, 2009</p> <p>Responsible Person: Ivette Ortiz Zayas, Federal Programs Director</p>	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>

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Section Eight Program Findings

Finding	Corrective Action Plan	Expected Result	Person In Charge	Date of Accomplishment
<p>08-III-17 Special Test and Provisions – Housing Quality Standard (HQS) Enforcement</p> <p>During my test to verify if the Program follows the Housing Quality Standards Enforcement for the unit's inspections that failed during the fiscal year, I noted the following conditions:</p> <ul style="list-style-type: none"> • In two (2) units, the Program waited from seven (7) to fifteen (15) dates after the inspections to issue the communications to the responsible person of the repairs. • In two (2) units, the correction period was ended and there was no evidence in the files that contain a unit inspection report, other evidence of other verifications that the repairs were completed. • In one (1) unit, there was no evidence that the Program took action to enforce the family obligation. <p>Criteria: Code of Federal Regulations, 24 CFR, Section 982.404 (a) (3) stated that the PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any PHA- approved extension).</p>	<p>We have established an itinerary of inspections which will allow for reexaminations to be completed at least 30 days before the actual reexamination date.</p> <p>Implementation Date: Immediately</p> <p>Responsible Person: Ivette Ortiz Zayas, Federal Programs Director</p>	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>