

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

MUNICIPIO DE SALINAS
AUDITORÍA 2008-2009
30 DE JUNIO DE 2009

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2009

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2009

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

Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial Statements of the Governmental Activities, each major fund, and the aggregate remaining fund information of the **Municipality of Salinas**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. We have also audited the accompanying Statement of Revenues and Expenditures – Budget and Actual – Budgetary Basis – General Fund of the Municipality for the fiscal year then ended, which is presented as part of the basis financial statement. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 4 to the financial statements, the Municipality did not have a complete, updated and accurate accounting records of capital assets, principally infrastructure assets, in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the accompanying statement of net assets for \$13,912,422, net of accumulated depreciation of \$6,205,965, and accordingly, the amount by which this departure would affect the assets, net assets and expenses of the governmental activities is not reasonably determinable.

INDEPENDENT AUDITORS' REPORT

(Continuation)

In our opinion based on our audit and the report of other auditors, 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, 2009, or the changes in financial position, thereof for the year then ended.

In addition, in our opinion based on our audit and the report of other auditors, the financial statements referred to previously 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, 2009, 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. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison of the general fund for the fiscal year then ended in conformity with the budgetary (statutory) basis of accounting, as described in Note 1.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements have been prepared assuming that the Municipality will continue as a going concern. As discussed in Note 18 to the financial statements, the Municipality, during several years has increased its deficit by exceeding its expenditures over its revenues. As of June 30, 2009, the accumulated deficit of the general fund amounted to \$6,497,985, with total liabilities of \$8,142,477 and total assets amounting to only \$1,644,492, and a bank overdraft of \$636,133. 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 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

December 18, 2009
San Juan, Puerto Rico

Nieves Velazquez & Co., P.C.

Stamp No. 2320836 the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

The management of **Municipality of Salinas, Puerto Rico (Municipality)** offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2009. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2002-2003. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

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

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- ❖ The total liabilities of the Municipality exceeded its total assets at June 30, 2009 by \$4,900,013, and at June 30, 2008 by \$5,488,957, as restated;
- ❖ The Municipality's total deficit decrease by \$588,944 during fiscal year 2008-2009;
- ❖ As of June 30, 2009, the Municipality's governmental funds reported combined ending deficit of \$3,442,393, and increase \$901,442 from the prior year;
- ❖ At June 30, 2009, the unrestricted deficit was \$8,013,696. During fiscal year 2008-2009, the Municipality issue \$725,000 in bonds debt;
- ❖ The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets as of June 30, 2009 were \$20,118,387;
- ❖ The investment in capital assets for this year was \$2,459,612;
- ❖ Loans principal payments were \$898,500 and \$975,000 in 2009 and 2008, respectively.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

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

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements of the Municipality are principally supported by taxes and intergovernmental revenues. The governmental activities of the Municipality include general government, public safety, public works, culture and recreation, health and sanitation, solid waste disposal, human services and welfare, urban development and education. Property taxes, municipal license tax, state and federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

GOVERNMENTAL NET ASSETS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, liabilities exceeded assets by \$4,900,013 as of June 30, 2009 versus \$5,488,957 as of June 30, 2008. Our analysis below focuses on the net assets (Table 1) and changes in net assets of the Municipality's governmental activities.

**TABLE 1
STATEMENT OF NET ASSETS**

	<u>2009</u>	<u>2008</u>
Current and non-current assets	\$ 4,372,143	\$ 4,481,826
Capital assets	<u>13,912,422</u>	<u>11,997,000</u>
Total Assets	<u>18,284,565</u>	<u>16,478,826</u>
Current liabilities	7,814,536	7,051,973
Long-term liabilities	<u>15,370,042</u>	<u>14,343,805</u>
Total Liabilities	<u>23,184,578</u>	<u>21,395,778</u>
Net assets:		
Investment in capital assets, net of related debt	11,309,543	8,823,121
Restricted	3,065,592	7,926,321
Deficit	<u>(19,265,148)</u>	<u>(22,238,399)</u>
Total Net Assets	<u>\$ (4,900,013)</u>	<u>\$ (5,488,957)</u>

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Municipality's net assets represents resources that are subject to external restrictions on how they may be used.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

GOVERNMENTAL ACTIVITIES

Governmental activities increased the Municipality's net assets. Key elements of this increase are as follows: the Municipality's governmental activities had net expenses of \$13,244,429. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues exceed net expenses by \$588,944.

The Municipality experienced an increase in property taxes and construction taxes, due to growth in new constructions and the assessed valuation of property within the Municipality. Also, a 1.5% sales tax was imposed by the Municipality, commencing on November 15, 2006. The cost of all governmental activities this year was \$18,075,217. Table 2 presents the cost of each of the Municipality's largest programs.

**TABLE 2
STATEMENT OF ACTIVITIES**

	<u>2009</u>	<u>2008</u>
Revenues		
Grants and contributions	\$ 4,692,490	\$ 2,674,648
General revenues:		
Property taxes	2,749,334	2,989,702
Volume of business taxes	1,096,721	1,041,718
Sales taxes	1,379,161	842,766
Intergovernmental	6,531,272	5,190,368
Rent	37,694	33,470
Licenses and permits	1,700,136	952,716
Miscellaneous	339,055	245,773
Charges for services	<u>138,298</u>	<u>196,722</u>
Total revenues	<u>18,664,161</u>	<u>14,167,883</u>
Expenses		
General government	5,113,583	6,609,093
Public safety	1,384,822	1,315,899
Public works	5,988,584	3,490,050
Culture and recreation	1,053,900	1,320,024
Human services and welfare	2,432,702	2,384,983
Urban development	1,634,256	3,267,300
Education	107,997	172,529
Interest on long-term debts	<u>359,373</u>	<u>527,988</u>
Total expenses	<u>18,075,217</u>	<u>19,087,866</u>
Changes in net assets	588,944	(4,919,983)
Net assets – beginning, as restated	<u>(5,488,957)</u>	<u>(568,974)</u>
Net assets – ending	<u>\$ (4,900,013)</u>	<u>\$ (5,488,957)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENT FUND FINANCIAL ANALYSIS

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

**TABLE 3
BALANCE SHEET**

	<u>2009</u>	<u>2008</u>
Assets:		
Total assets – Major Funds	\$ 5,521,941	\$ 7,013,526
Total assets – Other Funds	<u>593,890</u>	<u>1,545,253</u>
Combined total assets	<u>6,115,831</u>	<u>8,558,779</u>
Liabilities:		
Total liabilities – Major Funds	9,315,555	11,405,371
Total liabilities – Other Funds	<u>242,669</u>	<u>736,641</u>
Combined total liabilities	<u>9,558,224</u>	<u>12,142,012</u>
Fund Balances:		
Reserved – Major Funds	4,360,722	6,969,637
Reserved – Other Funds	351,221	808,612
Unreserved – Major Funds	<u>(8,154,336)</u>	<u>(11,361,482)</u>
Combined total fund balances	<u>(3,442,393)</u>	<u>(3,583,233)</u>
Total liabilities and fund balances	<u>\$ 6,115,831</u>	<u>\$ 8,558,779</u>

**TABLE 4
CHANGES IN FUND BALANCES**

	<u>2009</u>	<u>2008</u>
Revenues:		
Total revenues – Major Funds	\$ 17,457,152	\$ 12,776,220
Total revenues – Other Funds	<u>1,207,009</u>	<u>2,903,857</u>
Combined total revenues	<u>18,664,161</u>	<u>15,680,077</u>
Expenditures:		
Total expenditures – Major Funds	18,122,331	15,964,924
Total expenditures – Other Funds	<u>1,125,990</u>	<u>3,103,518</u>
Combined total expenditures	<u>19,248,321</u>	<u>19,068,442</u>
Other financing sources (uses):		
Proceed from issuance of bonds	725,000	975,000
Transfer – In	349,749	413,372
Transfer – Out	<u>(349,749)</u>	<u>(413,372)</u>
Combined other financing sources (uses), net	<u>725,000</u>	<u>975,000</u>
Net changes in fund balance	140,840	(2,413,365)
Fund Balance – beginning, as restated	<u>(3,583,233)</u>	<u>(1,169,868)</u>
Fund Balance – ending	<u>\$ (3,442,393)</u>	<u>\$ (3,583,233)</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENTAL FUNDS

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2009, the Municipality's governmental funds reported combined ending fund balances of \$(3,442,393), a decrease of \$140,840 from the prior year.

The Municipality has an unreserved fund deficit of \$8,154,336 in its General Fund. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed; (a) to liquidate prior year obligations (\$1,644,187), (b) to pay debt service (\$669,485) and (c) for other restricted purposes (\$2,398,271).

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds.

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances and other unanticipated revenues. Differences between the original 2009 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- ❖ The original budget was amended to increase expenditures between expenditures accounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's investment in capital assets net of related debt for its governmental type activities as of June 30, 2009 amounted to \$11,309,543 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, highways, and bridges. The total increase in the Municipality's investment in capital assets for the current fiscal year was \$2,486,422. Additions during the fiscal year was principally for building construction, purchase of new vehicles and machinery and equipment, necessary to provides services to our citizens. Table 5 present the major classes of capital assets.

Table 5	
Capital Assets	Amount
Construction in progress	\$ 1,255,985
Motor vehicles	2,237,036
Machinery and equipment	<u>1,122,124</u>
Total Assets	<u>\$ 4,615,145</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

LONG-TERM DEBT

At June 30, 2009 the Municipality have a total of \$15,370,042 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$8,559,129 comprises debt backed by the full faith and credit of the government and \$6,810,913 is other obligations.

Table 6	
Long Term Debts	Amount
General obligations	\$ 8,559,129
Others	<u>6,810,913</u>
Total Long Term Debts	<u>\$ 15,370,042</u>

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave and advances of property taxes. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, sales taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors were considered in preparing the Municipality's budget for the 2009 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality's Finance Department at (787) 824-3060.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
STATEMENT OF NET ASSETS
June 30, 2009

	Governmental Activities
ASSETS:	
Cash and Investments	\$ 96,086
Cash with Fiscal Agent	2,218,003
Receivables (net):	
Property Taxes	9,249
Sales Taxes	84,902
Federal Grants	458,739
State Government	1,473,336
Others	31,828
	4,372,143
Capital Assets (Note 8):	
Land, Improvements and Construction in Progress	7,149,643
Other Capital Assets, (Net of Depreciation)	6,762,779
Total Capital Assets	13,912,422
Total Assets	18,284,565
 LIABILITIES:	
Bank Overdraft	637,118
Accounts Payable and Accrued Expense	835,912
Bonds Payable	620,000
Accrued Interests	107,670
Due to Governmental Units	4,965,219
Claims & Judgments	39,300
Deferred Revenue	609,317
Long-Term Liabilities (Note 10):	
Due within One Year	1,675,439
Due in More than One Year	13,694,603
Total Liabilities	23,184,578
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	11,309,543
Restricted for:	
Debt Service Fund	669,485
Other Purposes	2,386,107
Unrestricted (Deficit)	(19,265,148)
Total Net Assets (Deficit)	\$ (4,900,013)

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government	\$ 5,113,583	-	-	-	(5,113,583.00)
Public Safety	1,384,822	-	321,912	-	(1,062,910)
Public Works	5,988,584	-	-	-	(5,988,584)
Culture and Recreation	1,053,900	-	-	-	(1,053,900)
Human Services and Welfare	2,432,702	138,298	614,634	-	(1,679,770)
Urban Development	1,634,256	-	2,472,218	1,176,000	2,013,962
Education	107,997	-	107,726	-	(271)
Interest on Long-Term Debt	359,373	-	-	-	(359,373)
Total Governmental Activities	\$ 18,075,217	138,298	3,516,490	1,176,000	(13,244,429)

General Revenues:

Taxes:

Property Taxes, levied for General Purposes	2,299,022
Property Taxes, levied for Debt Services	450,312
Municipal License Taxes	1,096,721
Licenses, Permits and Other Local Taxes	1,700,136
Sales Tax	1,379,161
Intergovernmental	6,531,272
Rent	37,694
Miscellaneous	339,055
Total General Revenues	13,833,373

CHANGE IN NET ASSETS

	588,944
Net Assets (Deficit) - Beginning of Year as restated	(5,488,957)
NET ASSETS (Deficit) - END OF YEAR	\$ (4,900,013)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	General Fund	State Assignment Fund	Loans Fund	Debt Service Fund	CDBG Fund	Other Governmental Funds	Total Funds
ASSETS:							
Cash and Investments (Note 2)	\$ -	-	1,247	-	3,024	91,815	96,086
Cash with Fiscal Agent	12,164	-	804,544	1,387,906	-	13,389	2,218,003
Receivables:							
Property Taxes	-	-	-	9,249	-	-	9,249
Sales Tax	84,902	-	-	-	-	-	84,902
Federal Grants	-	-	-	-	421,685	37,054	458,739
State Government	1,352,941	-	-	-	-	120,395	1,473,336
Due from Other Funds	194,485	1,238,294	11,500	-	-	299,409	1,743,688
Others	-	-	-	-	-	31,828	31,828
Total Assets	\$ 1,644,492	1,238,294	817,291	1,397,155	424,709	593,890	6,115,831
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Bank Overdraft	\$ 636,133	985	-	-	-	-	637,118
Accounts Payable & Accrued Expense Liabilities	369,205	19,714	-	-	417,027	29,966	835,912
Bonds Payable	-	-	-	620,000	-	-	620,000
Accrued Interests	-	-	-	107,670	-	-	107,670
Due to Governmental Units	4,965,219	-	-	-	-	-	4,965,219
Due to Other Funds	1,549,203	-	-	-	7,682	186,803	1,743,688
Claims & Judgments	39,300	-	-	-	-	-	39,300
Deferred Revenue:							
Volume of Business Tax	583,417	-	-	-	-	-	583,417
Federal Grants	-	-	-	-	-	25,900	25,900
Total Liabilities	8,142,477	20,699	-	727,670	424,709	242,669	9,558,224
Fund Balances:							
Reserve For:							
Encumbrances	1,644,187	-	-	-	-	-	1,644,187
Debt Service	-	-	-	669,485	-	-	669,485
Other Purposes	12,164	1,217,595	817,291	-	-	351,221	2,398,271
Unreserved (Deficit)	(8,154,336)	-	-	-	-	-	(8,154,336)
Total Fund Balances	(6,497,985)	1,217,595	817,291	669,485	-	351,221	(3,442,393)
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,644,492	1,238,294	817,291	1,397,155	424,709	593,890	6,115,831

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, 2009

	General Fund	State Assignment Fund	Loans Fund	Debt Service Fund	CDBG Fund	Other Governmental Funds	Total Funds
REVENUES:							
Property Taxes	\$ 2,299,022	-	-	450,312	-	-	2,749,334
Volume of Business Taxes	1,096,721	-	-	-	-	-	1,096,721
Sales Taxes	1,081,929	-	-	297,232	-	-	1,379,161
Charges for Services	138,298	-	-	-	-	34,000	172,298
Federal Assistances	-	-	-	-	2,309,481	910,410	3,219,891
Intergovernmental	6,531,272	1,176,000	-	-	-	262,599	7,969,871
Licenses and Permits	1,700,136	-	-	-	-	-	1,700,136
Rent	37,694	-	-	-	-	-	37,694
Miscellaneous	339,055	-	-	-	-	-	339,055
Total Revenues	13,224,127	1,176,000	-	747,544	2,309,481	1,207,009	18,664,161
EXPENDITURES:							
Current:							
General Government	5,230,708	-	-	-	-	-	5,230,708
Public Safety	1,351,522	-	-	-	-	-	1,351,522
Public Works	3,887,402	-	-	-	-	-	3,887,402
Culture and Recreation	959,608	-	-	-	-	96,068	1,055,676
Human Services and Welfare	1,638,476	110,000	-	-	-	587,238	2,335,714
Urban Development	-	731,559	452,062	-	1,373,981	238,056	2,795,658
Education	-	-	-	-	-	107,726	107,726
Capital Outlay	103,145	-	90,495	-	935,500	96,902	1,226,042
Debt Service:							
Principal	-	-	-	898,500	-	-	898,500
Interest	-	-	-	359,373	-	-	359,373
Total Expenditures	13,170,861	841,559	542,557	1,257,873	2,309,481	1,125,990	19,248,321
OTHER FINANCING SOURCES (USES)							
Proceed From Issuance of Bonds	725,000	-	-	-	-	-	725,000
Transfers - In	-	-	-	288,749	-	61,000	349,749
Transfers - Out	(349,749)	-	-	-	-	-	(349,749)
Total Other Financing Sources and Uses	375,251	-	-	288,749	-	61,000	725,000
Net Change in Fund Balances	428,517	334,441	(542,557)	(221,580)	-	142,019	140,840
Fund Balance - Beginning as Restated (Note12)	(6,926,502)	883,154	1,359,848	891,065	-	209,202	(3,583,233)
Fund Balances - Ending	\$ (6,497,985)	1,217,595	817,291	669,485	-	351,221	(3,442,393)

Signature

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Total Fund Balances – Governmental Funds (Page 12) \$ (3,442,393)

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

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

Non Depreciable Capital Assets	\$ 7,149,644	
Depreciable Capital Assets	10,420,083	
Infrastructure Assets	2,548,660	
Accumulated Depreciation	<u>(6,205,965)</u>	
Total Capital Assets		13,912,422

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	8,559,129	
Compensated Absences	1,190,444	
Property Tax Debt – Law 42	1,039,566	
Property Tax Debt – Law 146	221,180	
LIMS Repayment Plan	104,017	
Claims & Judgments	165,000	
Landfill Closure and Post-Closures Costs	3,931,721	
State Department of Labor- Debt Agreement	131,086	
Property Tax Advances	<u>27,899</u>	
Total Long-Term Liabilities		<u>(15,370,042)</u>

Total Net Assets (Deficit) of Governmental Activities (Page 10) \$ (4,900,013)

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 BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Net Change in Fund Balances – Total Governmental Funds (Page 13) **\$ 140,840**

Amounts reported for Governmental Activities in the Statement of Activities 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	\$ 2,459,162	
Depreciation Expense	<u>(543,740)</u>	
Excess of Capital Outlay over Depreciation Expense		1,915,422

Debt 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, these amounts are:

General obligation bond	(725,000)
-------------------------	-----------

Repayment of debt proceeds 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.

898,500

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 Compensated Absences	37,644	
Decrease in Property Tax Debt – Law 42	19,283	
Decrease in Property Tax Debt – Law 146	9,617	
Decrease in LIMS Repayment Plan	37,521	
Decrease in Claims & Judgments	17,997	
Increase in Landfill Closure and Post-Closures Costs	(1,894,020)	
Decrease in State Department of Labor- Debt Agreement	103,242	
Property Tax Advances	<u>27,898</u>	
Total Additional Expenditures		<u>(1,640,818)</u>

Change in Net Assets of Governmental Activities (Page 11) **\$ 588,944**

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

STATEMENT OF REVENUES AND EXPENDITURES –
BUDGET AND ACTUAL – GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final	(See Note A)	Positive (Negative)
Revenues				
Property Taxes	\$ 2,299,022	2,485,999	2,299,022	(186,977)
Municipal License Taxes	949,266	949,266	1,096,721	147,455
Licenses, Permits and Other Local Taxes	4,168,310	4,168,310	1,700,136	(2,468,174)
Intergovernmental Revenues	5,216,521	5,439,559	5,178,331	(261,228)
Charges for Services	155,000	155,000	138,298	(16,702)
Sales Tax	720,000	720,000	1,145,433	425,433
Rent of Property	45,000	45,000	37,694	(7,306)
Miscellaneous	291,517	291,517	810,771	519,254
Total Revenues	<u>13,844,636</u>	<u>14,254,651</u>	<u>12,406,406</u>	<u>(1,848,245)</u>
Expenditures				
General Government	4,953,307	5,128,097	5,412,627	(284,530)
Public Safety	1,456,378	1,448,698	1,351,858	96,840
Public Work	4,325,975	4,452,865	4,382,189	70,676
Culture and Recreation	1,031,361	1,075,679	1,093,131	(17,452)
Human Services and Welfare	1,776,654	1,769,691	1,651,519	118,172
Transfer to Other Funds	300,961	379,621	349,749	29,872
Total Expenditures	<u>13,844,636</u>	<u>14,254,651</u>	<u>14,241,073</u>	<u>13,578</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ -</u>	<u>-</u>	<u>(1,834,667)</u>	<u>(1,834,667)</u>

See accompanying notes to basic financial statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2009, 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, 2009, 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 THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASBS No. 14.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the Municipality's financial statements to be misleading or incomplete. The GASB 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) 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.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality indicate no organizations meet the criteria to be included as component units. Accordingly, these basic financial statements present only the Municipality as the reporting entity.

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2009, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (the Municipality may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

There are essentially two types of revenue. For some grants, funds must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- ❖ Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2009, has been reported only in the government-wide financial statements.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

Government-Wide Financial Statements

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information of all the activities of the Municipality. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the Statement of Net Assets is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term expendable resources) with capital assets and long-term obligations.

The Statement of Net Assets presents the reporting entities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- ❖ **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- ❖ **Restricted Net Assets** – These results when constraints are placed on net assets use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ❖ **Unrestricted Net Assets** – These consists of net assets which do not meet the definition of the two preceding categories. 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 on resources that are imposed by management, but can be removed or modified.

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

The Statement of Activities is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Governmental Fund Financial Statements

The fund financial statements (the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statement Presentation (Continued)

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

Since the governmental fund statements are presented in a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and a separate explanation for each differences.

The Municipality reports its financial position (Balance Sheet) and results of operations (Statement of Revenues, Expenditures and Changes in Fund Balance) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

The new model as defined in GASBS No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The Municipality reports the following major funds:

General Fund – This is the general operating fund of the Municipality. It is used to account for all financial resources, except those required to be accounted for in another fund.

State Assignment Fund – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primary objectives of this assignments is the development of projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

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 – This is the fund used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

CDBG Fund – CDBG Fund is used to account for revenues derived from the Department of Housing and Urban Development, related to Community Development Block Grants – State Program.

GASBS No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the Government-Wide Statement of Net Assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Reporting Presentation

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

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

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

Debt Service Fund – This is the fund used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund – This is the fund used to account for financial resources used for the acquisition or construction of major capital facilities. The uses and limitations of each capital projects fund are specified by Municipality ordinances or state statutes.

E. Budgetary Data

The Municipality annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts of Proprietary Funds and Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of supplemental appropriations. During the year, several supplemental appropriations were necessary.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Data (Continued)

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

- ❖ Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message;
- ❖ The budget document is available for public inspection prior to its approval by the Municipal Legislature;
- ❖ The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law;
- ❖ Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;
- ❖ If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;
- ❖ Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;
- ❖ Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Data (Continued)

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general fund's budgetary basis and GAAP actual amounts is presented as follows:

SOURCES/INFLOWS OF RESOURCES:

Available for appropriations	\$12,406,406
Difference – Budget to GAAP:	
The Fund balance at the beginning of year is a budgetary resource but is not a current year revenue	-
GAAP adjustments to revenues	<u>817,721</u>

TOTAL REVENUES AS REPORTED ON STATEMENT OF GOV. REVENUES AND EXPENDITURES

\$13,224,127

USES/OUTFLOWS OF RESOURCES:

Appropriations	\$14,241,073
Difference – Budget to GAAP:	
Prior year expenditures are not outflows of budgetary resources but are expenditures for financial reporting purposes	662,773
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes	(999,098)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(349,749)
Adjustment to expenditures	<u>(384,138)</u>

TOTAL EXPENDITURES AS REPORTED ON THE STATEMENT OF GOV. REVENUES AND EXPENDITURES

\$13,170,861

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Data (Continued)

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the Major and Non Major Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

F. Cash, Cash Equivalent and Investment

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

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 Deposit Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. The sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

G. Receivables

Receivable are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

H. Inventories

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<u>Capital Assets</u>	<u>Years</u>
Buildings and site improvements	40
Infrastructure	40
Works of art	10
Vehicles	5
Furniture and fixtures	5
Machinery and equipment	3 to 5

J. Long-Term Obligations

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

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

K. Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Compensated Absences (Continued)

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2009.

<u>BALANCE</u> <u>JULY 1, 2008</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2009</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$ 1,228,088	-	(37,644)	1,190,444	476,178	714,266

L. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

M. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The Municipality has the following types of reciprocal and nonreciprocal interfund activities:

- ❖ **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- ❖ **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- ❖ **Interfund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Reservations of Fund Balance – Governmental Funds

Reservations of fund balance in the fund financial statements represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- ❖ **Encumbrances** – Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- ❖ **Debt Service Fund** – Represents net assets available to finance future debt service payments. 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.
- ❖ **Other Purposes** – Represents net assets available for specific use and/or legally segregated for other specific future use.

O. Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The Long-Term Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

P. Use of Estimates

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

Q. 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 state government of 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, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. 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 of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Accounting for Pension Costs (Continued)

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.

R. Risk Financing

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2009 amounted to \$119,171. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$259,029 for workers compensation insurance covering all municipal employees.

S. Future Adoption of Accounting Pronouncements

The GASB has issued the following accounting standards that have effective dates after June 30, 2009:

- ❖ 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. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement establishes accounting and reporting requirements for derivative instruments, including hedge accounting. This statement is effective for periods beginning after June 15, 2009;
- ❖ GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement changes the classification and terminology of fund balances and amends the definitions of the different types of governmental funds. This statement is effective for periods beginning after June 15, 2010;
- ❖ GASB Concepts Statements No. 5, *Service Efforts and Accomplishments – an Amendment of GASB Concepts Statements No. 2*. This statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB:CS-2. ;

The Municipality's management has concluded that the future adoption of these GASB Statements do not have any impact on the Municipality's basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 – CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

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, 2009, (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, 2009, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks 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, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009 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, 2009.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

The Municipality's bank balances in commercial banks of \$1,247 in the loans fund and 3,024 in CDBG fund were fully collateralized at June 30, 2009. In the other governmental funds there were deposits with commercial banks of \$91,815 that were fully collateralized.

The deposits at GDB of \$12,164 in the general fund; the \$804,544 in the loans fund, the \$1,387,906 in the debt service fund, and the \$13,389 in other governmental funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

NOTE 3 – RECEIVABLES

A. Property Taxes Receivables

Property taxes receivable in debt service fund represents advances from fiscal year 2008-2009, not collected by the Municipality at June 30, 2009. Following is a detail of the property taxes receivable:

Governmental Entity	Amount
Municipal Revenue Collection Center (CRIM)	\$ 9,249
Total	\$ 9,249

B. Sales Tax Receivables

As described below in Note 14, the Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. 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. Therefore, sales tax receivable of \$84,902 in the general fund represents the amount due by the taxpayers at June 30, 2009.

C. Federal Grants Receivable

Federal grants receivable in the CDBG fund and in other governmental funds represent expenditures incurred not yet reimbursed by the federal agencies or the pass-through grantors. Following is a detail of the federal grants receivable:

Description	Amount
Community Development Block Grant – State Program	\$ 421,685
Child and Adult Care Food Program	37,054
Total	\$ 458,739

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 3 – RECEIVABLES (CONTINUED)

D. State Government Receivables

As described below in Note 21, on March 9, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 9, which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The Municipality used part of this stimulus to paid current debts maintained with local governmental entities: Intergovernmental receivable at June 30, 2009 related to this stimulus amounted \$1,352,941.

State government receivables in other governmental funds represent expenditures incurred not yet reimbursed by the state agencies. Following is a detail of the state government receivables:

Governmental Entity	Amount
Department of Justice	\$ 76,642
Department of Labor and Human Resources – Law 82	26,552
Puerto Rico Emergency Management Agency	17,201
Total	<u>\$ 120,395</u>

E. Due From Other Funds

Interfund receivables and payables at June 30, 2009 are summarized as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	CDBG Fund	Payroll and related accruals paid and not reimbursed	\$ 7,682
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed, and other reimbursable expenditures	186,803
State Assignment Fund	General Fund	Reimbursable expenditures	1,238,294
Loans Fund	General Fund	Reimbursable expenditures	11,500
Other Governmental Funds	General Fund	Cash pool in the same bank account and reimbursable expenditures	299,409
Total			<u>\$ 1,743,688</u>

F. Other Receivables

Other receivables in other governmental funds, for the amount of \$31,828, represent Section 8 Housing Choice Vouchers receivables at June 30, 2009, resulting from fraud recoveries.

COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 – CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

Governmental Activities	Balance July 1, 2008 As Restated	Additions	Retirements / Reclassifications	Balance June 30, 2009
Capital asset, not being depreciated:				
Land	\$ 4,855,013	1,038,645	-	5,893,658
Construction in progress	-	1,255,985	-	1,255,985
Total capital assets not being depreciated	<u>4,855,013</u>	<u>2,294,630</u>	-	<u>7,149,643</u>
Capital assets, being depreciated:				
Buildings	6,970,923	-	-	6,970,923
Infrastructure	2,515,098	33,563	-	2,548,661
Machinery and equipment	1,081,650	40,474	-	1,122,124
Motor vehicles	2,236,541	90,495	-	2,327,036
Total capital assets being depreciated	<u>12,804,212</u>	<u>164,532</u>	-	<u>12,968,744</u>
Less accumulated depreciation for:				
Buildings	(2,315,258)	(174,273)		(2,489,531)
Infrastructure	(548,707)	(131,104)		(679,811)
Machinery and equipment	(939,148)	(74,523)		(1,013,671)
Motor vehicles	(1,859,112)	(163,840)	-	(2,022,952)
Total accumulated depreciation	<u>(5,662,225)</u>	<u>(543,740)</u>	-	<u>(6,205,965)</u>
Total capital assets being depreciated, net	<u>7,141,987</u>	<u>(379,209)</u>	-	<u>6,762,779</u>
Governmental activities capital assets, net	<u>\$ 11,997,000</u>	<u>1,915,422</u>	-	<u>13,912,422</u>

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

Governmental activities	Amount
General government	\$ 136,077
Urban development	71,717
Education	271
Public Safety	33,300
Public Works	207,162
Culture and Recreation	94,292
Human services and welfare	921
Total depreciation expenses	<u>\$ 543,740</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 4 – CAPITAL ASSETS (CONTINUED)

GASB Statement No. 34 requires to retroactively applying the requirements to major general infrastructure assets within at least four (4) years of the adoption of this pronouncement, which is not later than June 30, 2007. The Municipality has not complied with this requirement.

NOTE 5 – BANK OVERDRAFT

The bank overdraft of \$636,133 in the general fund and \$985 in the state assignment fund, was the result of the adjusted cash balance at June 30, 2009, of the Municipality's current account, payroll accounts and state assignment account.

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES LIABILITIES

Accounts payable and accrued expenses liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2008-2009, and not paid by the Municipality at June 30, 2009. Following is a detail of these accounts payable and accrued liabilities:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 221,154	148,051	369,205
State Assignment Fund	19,714		19,714
CDBG Fund	417,027		417,027
Other Governmental Funds	<u>29,966</u>	<u>-</u>	<u>29,966</u>
Total	<u>\$ 687,861</u>	<u>148,051</u>	<u>835,912</u>

NOTE 7 – DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2009, balance due to other governmental units consists of the following:

Governmental Agency	Amount
Puerto Rico Aqueduct and Sewer Authority	\$ 291,793
Governmental Development Bank	285,025
State Department of Treasury	1,588,778
General Service Administration	56,304
State Department of Labor	53,220
State Retirement System Administration	1,110,201
Internal Revenue Services	1,552,353
Association of Employees of Commonwealth of Puerto Rico	<u>27,545</u>
Total	<u>\$ 4,965,219</u>

**COMMONWEALTH OF PUERTO RICO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 8 – CLAIM AND JUDGMENTS

Liabilities of \$39,300 reported in the general fund represent the balance owed for claims and judgments at June 30, 2009, as described in Note 19.

NOTE 9 – DEFERRED REVENUES

- A. Volume of business tax** – The deferred revenues of \$583,417 in the general fund relates to volume of business tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.
- B. Federal Grants** – The deferred revenues presented in the head start fund and in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Community Services Block Grant	\$ 7,400
Public Assistance Grants	8,460
Special Programs for the Aging Title III-Part B	9,886
Child Care and Development Block Grant	154
Total	<u>\$ 25,900</u>

NOTE 10 – GENERAL LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2009, was as follows:

<u>Description</u>	<u>Beginning Balance, as restated</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds and Notes Payable	\$ 8,732,629	725,000	(898,500)	8,559,129	970,379
Property Tax Advances – Treasury Department	55,795	-	(27,896)	27,899	27,899
Property Tax Debt – Law 42	1,058,849	-	(19,283)	1,039,566	20,493
Compensated absences	1,228,088	-	(37,644)	1,190,444	476,178
LIMS Repayment Plan	141,538	-	(37,521)	104,017	39,787
Property Tax Debt – Law 146	230,797	-	(9,617)	221,180	9,617
State Department of Labor Debt Agreement	234,328	-	(103,242)	131,086	131,086
Claims and Judgments	182,997	-	(17,997)	165,000	-
Estimated landfill closure and post-closure care cost	<u>2,037,703</u>	<u>1,894,018</u>	<u>-</u>	<u>3,931,721</u>	<u>-</u>
Total	<u>\$ 13,902,724</u>	<u>2,619,018</u>	<u>(1,151,700)</u>	<u>15,370,042</u>	<u>1,675,439</u>

**COMMONWEALTH OF PUERTO RICO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES

The Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. Bonds and notes payables as of June 30, 2009, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$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	\$ 92,879
\$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	1,265,000
\$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	1,285,000
\$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	1,495,000
\$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	641,250
\$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	340,000
\$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	705,000
\$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	755,000
\$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	470,000
\$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	830,000
\$725,000, Series 2008, for operation purposes, payable in annual installments ranging from \$45,000 to \$100,000, excluding interests from 2.43% to 7.50%, through July 1, 2018	<u>680,000</u>
Total General Obligations – Bonds	<u>\$ 8,559,129</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES (CONTINUED)

These bonds, except the 1993 Series amounting to \$2,300,000, the 2004 Series amounting to \$385,000 and the 2004 Series amounting to 805,000, are payable from the special ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. Bonds amounting \$2,300,000, \$385,000 and \$805,000 are payable with operational resources, and the CRIM retains the payment from the property tax advances of the Municipality.

B. BONDS AND NOTES AMORTIZATION

The annual requirements to amortize the general obligations outstanding as of June 30, 2009 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2010	\$ 970,379	524,947	1,495,326
2011	927,500	484,354	1,411,854
2012	1,031,250	421,846	1,453,096
2013	635,000	355,265	990,265
2014	470,000	315,235	785,235
2015-2019	2,225,000	1,050,429	3,275,429
2020-2024	1,185,000	514,829	1,699,829
2025-2029	<u>1,115,000</u>	<u>157,423</u>	<u>1,272,423</u>
Total	<u>\$ 8,559,129</u>	<u>3,824,328</u>	<u>12,383,457</u>

C. PROPERTY TAX ADVANCES – TREASURY DEPARTMENT

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 \$27,899 at June 30, 2009.

D. PROPERTY TAX DEBT – LAW 42

The Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$1,039,566.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

E. COMPENSATED ABSENCES

The government-wide statement of net assets includes \$1,190,444 of accrued sick leave benefits and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

F. LIMS REPAYMENT PLAN

The Municipality entered into a financing agreement with the CRIM for the payment of the Municipality's share of the cost of an information management system, acquired by the CRIM on behalf of all municipalities, for the management of a digital database of taxpayer's properties located in Puerto Rico. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$104,017.

G. PROPERTY TAX DEBT – LAW 146

On September 24, 2002, the CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001. The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by the Public Finance Corporation, a subsidiary of the GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996. The outstanding balance of the note payable to the CRIM at June 30, 2009 amounted to \$221,180.

H. STATE DEPARTMENT OF LABOR DEBT AGREEMENT

During past years, 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, 2009 of this agreement was \$131,086.

I. CLAIMS AND JUDGMENTS

Liabilities of \$165,000 reported in the statement of net assets represent the balance owed for claims and judgments at June 30, 2009, as described in Note 19.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 10 – GENERAL LONG-TERM DEBTS (CONTINUED)

J. ESTIMATED LANDFILL CLOSURE AND POST-CLOSURE CARE COST

State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations.

Based on this study, the Municipality has recognized in the government-wide statement of net assets \$3,931,721 as the Municipality's estimated current cost for landfill closure and post-closure costs as of June 30, 2009. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. At June 30, 2009, the Municipality solid waste landfill is still operating and its remaining estimated useful life is approximately 3 years before an expansion is made. There is an estimated land lot for expansion of 50 acres.

NOTE 11 – DEBT RETIREMENT

Revenues of the debt service fund consist 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.

NOTE 12 – 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 rate in force at June 30, 2009 was 8.53% (of which taxpayers pay 8.33% and 0.20% is reimbursed by the Department of Treasury); after June 30, 2008, the total personal property tax rate has been 8.53%.

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, 2009 was 10.33% (of which 10.03% is paid by taxpayers and 0.20% is also reimbursed by the Department of Treasury).

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 12 – PROPERTY TAXES (CONTINUED)

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:

- ❖ 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.
- ❖ 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 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 13 – VOLUME OF BUSINESS 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, 2009, 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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 13 – VOLUME OF BUSINESS TAXES (CONTINUED)

Taxpayers with a sales volume of \$3 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 fiscal year) are recorded as deferred revenues in the GWFS and the GFFS (See Note 9).

NOTE 14 – SALES 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 15 – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government. Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements.

Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the State Assignment, Loans and CDBG Funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 16 – INTERFUND TRANSFERS

Interfund transfers during the fiscal year ended at June 30, 2009, are summarized as follows:

Transfer Out	Transfer In	Purpose	Amount
General Fund	Debt Service Fund	Debt retirement	\$ 288,749
General Fund	Other Governmental Fund	To cover operating expenditures	<u>61,000</u>
Total			<u>\$ 349,749</u>

NOTE 17 – EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its instrumentality (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentality and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentality, Assistants of the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The Municipality adopted the requirements of GASBS No. 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447 that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution programs to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 17 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation for each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- ❖ The present value of the future pension payments was computed by using a discount of 9%.
- ❖ Future pension payments reflect an assumption of a 6% salary increase.

All employees that do not elect to transfer for the new program and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

<u>YEARS OF SERVICE</u>	<u>PARTICIPANT'S AGE</u>	<u>PENSION BENEFITS</u>
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The amount of the total pension benefit obligation is based on a standardized measurement established by GASBS No. 27, *Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans*. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and non-vested is not readily available.

Contributions in 2006 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 17 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2009 was approximately \$180,539. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2009. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

Under GASB Statement No. 50, Pension Disclosures, the note disclosures for pension plans of governmental entities have been expanded. However, the methods of measurement and recognition have not changed and remain defined by Statements No. 25 and No. 27.

Then changes required on pension disclosures have the intention of align the reporting requirements for pension plans with the requirements for other post employment benefits (OPEB). As noted previously, the Municipality of Salinas does not offer its employees any other post-employment benefits plan, apart from the aforementioned Employee's Retirement System.

NOTE 18 – 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 \$6,497,985 and a bank overdraft of \$636,133 at June 30, 2009. 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 management 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 19 – CONTINGENCIES

A. CLAIMS AND JUDGMENTS

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 \$39,300 in the General Fund for awarded unfavorable judgments, plus \$165,000 in the government wide statement of net assets in addition to the amount reported in the General Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 19 – CONTINGENCIES (CONTINUED)

A. CLAIMS AND JUDGMENTS (Continued)

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.

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 20 – ACCOUNTING CHANGES AND RESTATEMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

Description	General Fund	State Assignment Fund	Debt Service Fund	Other Governmental Fund
Fund balance, beginning	\$ (8,749,543)	\$ 2,222,850	\$ 1,817,282	\$ 808,612
Claims and judgments settled by lower amounts	78,365	-	-	-
Elimination of interest and penalties in the debt with the State Retirement System	103,794	-	-	-
Elimination of outstanding checks	51,031	-	-	8,517
Correction of interfund transactions	1,950,491	(1,339,696)	-	(607,927)
Reclassification of the Puerto Rico Aqueduct and Sewer Authority debt agreement	(360,640)	-	-	-
Adjustment to bonds and interest payables	-	-	(926,217)	-
Fund balance, beginning as restated	<u>\$ (6,926,502)</u>	<u>\$ 883,154</u>	<u>\$ 891,065</u>	<u>\$ 209,202</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 20 – ACCOUNTING CHANGES AND RESTATEMENTS (CONTINUED)

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

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

Description	Total
Net assets, beginning	\$ (3,762,370)
Claims and judgments settled by lower amounts	78,365
Elimination of interest and penalties in the debt with the State Retirement System	103,794
Elimination of outstanding checks	59,548
Elimination of 2005-06 CRIM debt	166,895
Adjustment to capital assets	(1,546,840)
Adjustment to bonds and interest payables	<u>(588,349)</u>
Net assets, beginning as restated	<u>\$ (5,488,957)</u>

NOTE 21 – SUBSEQUENT EVENTS

A. THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The American Recovery and Reinvestment Act of 2009 (ARRA), is an economic stimulus package endorsed by the President of the United States of America, and approved by Congress. This Act is designed primarily to combat the rising unemployment trends, put more money in the hands of consumers, and reduce the likelihood that state and local governments will need to raise taxes significantly. According to the White House press release, the legislation will do the following:

- ❖ Create or save 3.5 million jobs in the next 2 years;
- ❖ Provide direct tax relief to working and middle class families;
- ❖ Double the U.S. renewable energy generating capacity over 3 years;
- ❖ Stimulate private investment in renewable energy through tax credits and loan guarantees;
- ❖ Invest \$150 billion in U.S. infrastructure projects, and;
- ❖ Provide funds to U.S. state and local governments to support health and education programs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 21 – SUBSEQUENT EVENTS (CONTINUED)

B. THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5.6 million in grants and is eligible to obtain additional funding through other competitive federal programs. Therefore, the Municipality will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

C. INVESTMENT ON OUR INFRASTRUCTURE PLAN (PINI)

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 9, which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The following are the objectives of this Plan:

- ❖ Provide an immediate stimulus to the economy through funding of infrastructure Projects Island wide, and;
- ❖ Speed-up priority infrastructure projects in all municipalities of Puerto Rico.

The amount assigned to the Municipality amounts to \$1,352,941. In the first phase, the municipalities can use the funds for the following:

- ❖ Funding of essential infrastructure, and;
- ❖ Those municipalities with deficit can use those them to partially or fully liquidate existing debts with governmental agencies.

The Municipality assigned these funds for debts to agencies. Those debts were paid between July and August 2009.



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

Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTER 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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Salinas, Puerto Rico (the "Municipality")** as of and for the fiscal year ended June 30, 2009, which collectively comprise **Municipality of Salinas's** basic financial statements and have issued our report thereon dated December 18, 2009. The report on the Governmental Activities has an adverse opinion because we were unable to obtain sufficient evidence related to the capital assets. 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. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in 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, we identified certain deficiencies in internal control over financial reporting that we 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 **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 **Municipality's** financial statements that is more than inconsequential will not be prevented or detected by **Municipality's** internal control. We consider the deficiencies described in the accompanying Schedule of Finding and Questioned Costs to be significant deficiencies in internal control over financial reporting. See Findings 09-II-1, 09-II-2 and 09-II-3.

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

Internal Control Over Financial Reporting

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 **Municipality's** internal control.

Our consideration of 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 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, we consider item 09-II-1, 09-II-2 and 09-II-3 to be material weakness.

Compliance and Other Matters

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

Municipality's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit **Municipality's** response and, accordingly, we express no opinion on it.

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

February 5, 2010
San Juan, Puerto Rico

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

Stamp No. 2320841 was affixed
to the original of this report.





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

Certified Public Accountants and Financial Consultants

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

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

Compliance

We have audited the compliance on the **Municipality of Salinas, Puerto Rico (the "Municipality")** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. **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. Our responsibility is to express an opinion on **the Municipality's** compliance based on our audit.

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

In our opinion, **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, 2009.

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 our audit, we 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 our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality's** internal control over compliance.

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

Internal Control Over Compliance (Continuation)

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 **Municipality'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 federal program that is more than inconsequential will not be prevented or detected by the **Municipality's** internal control.

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 requirements of federal program will not be prevented or detected by **Municipality's** internal control.

Our consideration of internal control over compliance was for the limited purpose described in first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as identified above.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Municipality** as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the **Municipality's** basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

February 5, 2010
San Juan, Puerto Rico

Stamp No. 2320842 was affixed
to the original of this report.



Nieves Velázquez & Co., P.S.C.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>TOTAL EXPENDITURES</u>
<i>U.S. Department of Housing and Urban Development:</i>			
Direct Program – Major: Section 8 – Housing Choices Vouchers	14.871	N/A	\$432,317
Indirect Programs – Major: Path-through State – Office of the Commissioner of Municipal Affairs Community Development Block Grant (CDBG)	14.228	08-FC-AB, 07-FC-AB 06-FC-AB, 05-FC-AB 04-FC-AB, 03-FC-AB 02-FC-AB, 01-FD, 00-FD, 97-FD	<u>2,309,481</u>
<i>Total U.S. Department of Housing and Urban Development</i>			<u>2,741,798</u>
<i>U.S. Department of Homeland Security:</i>			
Pass-through Office of the Governor: Public Assistant Grant	97.036	N/AV	157,561
Homeland Security Grant Program	97.067	SO-05-8	<u>58,449</u>
<i>Total U.S. Department of Homeland Security</i>			<u>216,010</u>
<i>U.S. Department of Health and Human Services:</i>			
Pass-through Administration of Children and Families: Child Care and Development Block Grant	93.575	N/AV	<u>107,726</u>
<i>Total U.S. Department of Health and Human Services</i>			<u>107,726</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$3,065,534</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 1A to the general purpose combined financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. **The Municipality** is 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. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

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.

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 and N/A not applicable.

5. MAJOR PROGRAMS

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

6. RECONCILING OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE GENERAL PURPOSE FINANCIAL STATEMENTS.

Amounts included in the accompanying schedule agree with the amounts included in the basic financial statements as follows:

<u>FUND</u>	<u>FEDERAL ASSISTANCE</u>	<u>OTHER ASSISTANCE</u>	<u>FINANCIAL STATEMENTS</u>
Community Development Block Grant	\$2,309,481	-	2,309,481
Other Governmental Funds (including transfer-out)	<u>756,053</u>	<u>369,937</u>	<u>1,125,990</u>
Totals	<u>\$3,065,534</u>	<u>369,937</u>	<u>\$3,435,471</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Section I – Summary of Auditor's Results

Financial Statement

• Type of auditors' report issued:

- Unqualified Opinion – Governmental Funds
- Qualified Opinion
- Adverse Opinion – Governmental Activities
- Disclaimer Opinion

Internal control over financial reporting:

- Material weakness(es) identified? ___x___ Yes ___ No
- Significant deficiencies identified that
Are not considered to be material weakness(es)? ___ Yes ___x___ None Reported

Noncompliance material to financial statements noted? ___x___ Yes ___ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ Yes ___x___ No
- Significant deficiencies identified that
Are not considered to be material weakness(es)? ___ Yes ___x___ None Reported

Type of auditors' report issued on compliance for
Major Program:

Unqualified Opinion

Any audit findings disclosed that are required to be reported
in accordance with 510(a) OMB Circular A-133? ___ Yes ___x___ No

The Municipality's major programs were:

CFDA NUMBER

NAME OF FEDERAL PROGRAM

14.228
14.871

Community Development Block Grant Program
Section 8 – Housing Choice Vouchers

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

Auditee qualified as low-risk auditee? ___x___ Yes ___ No

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Section II – Financial Statement Findings

FINDING	NUMBER 09-II-01 (Continuation)
REQUIREMENT	ACCOUNTING RECORDS AND FINANCIAL STATEMENTS
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 2008-2009, 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.
RECOMMENDATION	We 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 in the United States of America (GAAP).
MANAGEMENT RESPONSE	The Finance Department continue implementing internal control and procedures in order to maintain a complete accounting system.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Section II – Financial Statement Findings

FINDING	NUMBER 09-II-02
REQUIREMENT	ACCOUNTING RECORDS – PROPERTY, PLANT AND EQUIPMENT
CONDITION	<p>At June 30, 2009, the Municipality does not have an effective system to account for capital assets, principally the infrastructure assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality has not recorded depreciation expense for the infrastructure not reported in the subsidiary ledger. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality has not performed periodical physical inventories of its capital assets during fiscal year 2008-2009.</p> <p>This finding is repeated from prior years.</p>
CRITERIA	Article 10.002 of State Law Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991, stated that Municipality should maintain updated property accounting records.
CAUSE	The Municipality did not maintain an adequate control of the accountability of its capital assets.
EFFECT	The Municipality is not in compliance with Article 10.002 of State Law Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991 (as amendment as of January 2004).
RECOMMENDATION	We recommend management and the Property Division of the Municipality to make an inventory of the capital assets and reconcile with the capital assets subsidiary ledger. In addition, the Municipality should implement adequate internal control procedures to improve the accountability of its infrastructure assets.
MANAGEMENT RESPONSE	The Property Division is responsible to take a physical inventory of its capital assets and the reconciliation with the property ledger. The Property Division has been instructed to complete the accounting records for the capital assets.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Section II – Financial Statement Findings

FINDING	NUMBER 09-II-03
REQUIREMENT	GENERAL FUND'S ACCUMULATED DEFICIT
CONDITION	During our examination of the financial statements as of and for the fiscal year ended June 30, 2009, we noted that the General Fund has an accumulated deficit of \$6,497,985. Such accumulated deficit is caused by the cumulative results from many years in which expenditures have exceeded revenues.
CRITERIA	Article 7.011(a) of State Law Number 81 – "Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico" of August 30, 1991 (as amendments 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	We 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	In October 2009, the Municipality officials prepared an aggressive Corrective Action Plan to reduce the deficit commencing in fiscal year 2009-2010.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Section III – Federal Award Findings and Questioned Costs

NOTE: There were no federal award finding nor questioned cost on major programs during the fiscal year ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2009**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2008	CDBG	08-III-10	<p><u>Allowable Cost/Cost Principles</u></p> <p>During our Disbursement Test, we 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. 	As authorized by the legal advisor, a complementary contract was prepared in December 2007, to correct such finding.
	CDBG	08-III-11	<p><u>Cash Management</u></p> <p>During our Cash Management Test, we noted that during the fiscal year 2007-2008, the Program maintained average balances of approximately \$17,510 in CDBG books. Also, we 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.</p>	For the fiscal year 2008-2009, we noted that the program was in compliance.
	CDBG	08-III-12	<p><u>Procurement, Suspension and Debarment</u></p> <p>During our Contract Test, we examined three (3) construction contracts and one (1) professional service contracts and noted the following in the construction 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 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) (29CFR, Part 5). 	As per our disbursement tests, we noted that all required federal clauses were included.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2009**

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>																									
06/30/2008	Section 8	08-III-14	<p><u>Reporting</u></p> <p>During our Reporting Test, we 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, we 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.</p>	There were no difference noted between the voucher management system and accounting records for the month of June 2009. The reconciliation difference of \$6,217 was corrected during the fiscal year 2008-2009.																									
	HOMELAND SECURITY	08-III-18	<p><u>Allowable Cost – Cost Principles</u></p> <p>We noted in our Tests of the Municipality's internal control over disbursements process that the invoices for the following disbursements were not available for our examination:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Program</u></th> <th style="text-align: left;"><u>Contractor</u></th> <th style="text-align: left;"><u>Date</u></th> <th style="text-align: left;"><u>Check Number</u></th> <th style="text-align: left;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>FEMA</td> <td>Beginners General</td> <td>08-03-07</td> <td>1</td> <td>\$16,971</td> </tr> <tr> <td>FEMA</td> <td>Beginners General</td> <td>01-11-08</td> <td>3</td> <td>12,217</td> </tr> <tr> <td>FEMA</td> <td>Beginners General</td> <td>08-03-07</td> <td>6</td> <td>29,032</td> </tr> <tr> <td colspan="4" style="text-align: right;">TOTAL – QUESTIONED COSTS</td> <td><u>\$58,220</u></td> </tr> </tbody> </table>	<u>Program</u>	<u>Contractor</u>	<u>Date</u>	<u>Check Number</u>	<u>Amount</u>	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 – QUESTIONED COSTS				<u>\$58,220</u>	All disbursement documents related with our tests were provided for examination for the fiscal year 2008-2009.
<u>Program</u>	<u>Contractor</u>	<u>Date</u>	<u>Check Number</u>	<u>Amount</u>																									
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 – QUESTIONED COSTS				<u>\$58,220</u>																									
	FEMA	08-III-19	<p><u>Procurement Standards</u></p> <p>During our Contract Provision Test, we examination four (40 constructions contracts to verify the completeness of its clauses and noted that for the four (40 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 (3) years after grantees or sub-grantees 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). 	As per our disbursement tests, we noted that all required federal clauses were included.																									

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2009

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
06/30/2008	HOMELAND	08-III-20	<u>Special Test</u> During our Special Test, we 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.	The Finance Department was instructed to implement adequate internal control procedures to assure compliance with OMB Circular A-87, and Subpart c, 44CFR, 13.20 and 13.21.
06/30/2007	CDBG	07-III-04	<u>Cash Management</u> Funds not disbursed within five (5) days after received.	For the fiscal year 2008-2009, we noted that the program was in compliance.
	CDBG	07-III-05	<u>Procurement, Suspension and Debarment</u> Contracts do not include all required clauses by the Program.	Finding do not prevails based on our disbursement test.

NOTE: The following findings included in prior audit reports, were closed as per letter dated October 14, 2009 send by the U.S. Department of Housing and Urban Development:

1. 2008 - III - 13
2. 2008 - III - 15
3. 2008 - III - 16
4. 2008 - III - 17
5. 2007 - III - 07
6. 2007 - III - 08
7. 2007 - III - 09
8. 2007 - III - 10