

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

**MUNICIPIO DE SALINAS  
AUDITORÍA 2012-2013  
30 DE JUNIO DE 2013**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS**

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

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**YEAR ENDED JUNE 30, 2013**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS**

**BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2013**

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

Certified Public Accountants and Financial Consultants

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Salinas of the Commonwealth of Puerto Rico (the Municipality), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## INDEPENDENT AUDITOR'S REPORT

(Continued)

### **Basis for Adverse Opinion on Governmental Activities**

As described in Notes 1 and 4 to the financial statements, the Municipality did not have a complete, updated and accurate accounting records of capital assets principally infrastructure assets. Accounting principles generally accepted in the United States of America require that capital assets additions be capitalized and depreciated over their estimated useful lives, which would increase the assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position and expenses of the governmental activities is not reasonably determinable.

As discussed in Note 8 to the financial statements, the Municipality did not comply with the requirements established by Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Cost*, issued by the Governmental Accounting Standards Boards and the regulation set forth by the U.S. Environmental Protection Agency. At June 30, 2013, the accompanying statement of net position does not include the required liability for closures and post-closure care costs of the Municipality's solid waste landfill. In addition, the expenses and result of operations reported in the statement of activities are understated and overstated, respectively, for amounts that could not be determined for the fiscal year ended June 30, 2013.

### **Adverse Opinion**

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on Governmental Activities" paragraphs, the financial statements referred to previously do not present fairly the financial position of the governmental activities of the Municipality of Salinas of the Commonwealth of Puerto Rico, as of June 30, 2013, or the changes in financial position thereof for the year then ended.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of Salinas of the Commonwealth of Puerto Rico, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2014 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.

# INDEPENDENT AUDITOR'S REPORT

(Continued)

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information of the general fund on pages 4 through 10 and 49 through 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers them to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Nieves Velazquez & Co., P.S.C.*  
NIEVES VELAZQUEZ & CO., P.S.C.

San Juan, Puerto Rico  
March 24, 2014

CPA Stamp No. 02696608 was affixed  
to the original of this report.



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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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, 2013. 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.

This reporting model is required by Governmental Accounting Standards Board Statement No. 34 and 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 liabilities of the Municipality exceeded its assets at June 30, 2013 by \$8,600,814 and at June 30, 2012 by \$7,363,421, as restated. The Municipality's total deficit increase by a negative net change of \$1,237,393 during fiscal year 2012-2013. As of June 30, 2013, the Municipality's governmental funds reported combined ending of \$212,458, an increase of \$4,490,893 as restated, from prior year.

At June 30, 2013, the unrestricted deficit was \$29,919,785. During fiscal year 2012-2013, the Municipality issue \$4,700,000 in bonds debt for operational purposes. The Municipality's capital assets inventory increase as a result of this year's operations. Capital assets (net of accumulated depreciation) as of June 30, 2013 was \$17,349,546.

#### **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.

#### **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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)**

The Statement of Net Position presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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.

**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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**GOVERNMENT-WIDE FINANCIAL ANALYSIS GOVERNMENTAL NET POSITION**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, liabilities exceeded assets by \$8,600,814 as of June 30, 2013 versus \$7,363,421 as of June 30, 2012, as restated. Our analysis below focuses on the net position (Table 1) and changes in net position of the Municipality's governmental activities.

	2013	2012
Current and non-current assets	\$ 6,368,541	\$ 4,455,049
Capital assets	17,349,546	18,029,540
<b>Total Assets</b>	<b>23,718,087</b>	<b>22,484,589</b>
Current liabilities	6,156,083	8,589,231
Long-term liabilities	26,162,818	21,258,779
<b>Total Liabilities</b>	<b>32,318,901</b>	<b>29,848,010</b>
Net position:		
Investment in capital assets, net of related debt	15,409,546	15,864,540
Restricted	5,909,425	4,281,699
Deficit	(29,919,785)	(27,509,660)
<b>Total Net Position, as restated</b>	<b>\$ (8,600,814)</b>	<b>\$ (7,363,421)</b>

The Municipality's net deficit contains a portion that it is invested 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 position represents resources that are subject to external restrictions on how they may be used.

**GOVERNMENTAL ACTIVITIES**

Governmental activities decreased the Municipality's deficit. Key elements of this decrease are as follows: the Municipality's governmental activities had net expenses of \$13,988,915. 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 \$(1,237,393).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**GOVERNMENTAL ACTIVITIES (CONTINUED)**

The cost of all governmental activities this year was \$17,225,877. **Table 2** presents the cost of each of the Municipality's largest programs.

**Table 2**

<b>Statement of Activities</b>	<b>2013</b>	<b>2012</b>
Revenues		
Grants and contributions	\$ 3,012,437	\$ 2,953,706
General revenues:		
Property taxes	3,228,308	3,499,876
Municipal license taxes	1,399,156	1,632,387
Sales taxes	1,595,692	1,450,747
Intergovernmental	6,446,621	5,610,898
Rent		23,515
Licenses and permits		1,618,494
Miscellaneous	81,745	347,177
Charges for services	224,525	148,051
<b>Total revenues</b>	<b>15,988,484</b>	<b>17,284,851</b>
Expenses		
General government	5,737,469	6,147,723
Public safety	1,914,108	1,690,023
Public works	4,078,731	5,234,174
Culture and recreation	1,155,863	1,103,321
Human services and welfare	2,003,575	3,358,852
Urban development	1,471,546	735,606
Education	110,409	149,750
Interest on long-term debts	754,176	592,696
<b>Total expenses</b>	<b>17,225,877</b>	<b>19,012,145</b>
Changes in net position	(1,237,393)	(1,727,294)
Net position – beginning, as restated	(7,363,421)	(5,636,127)
<b>Net position – ending</b>	<b>\$ (8,600,814)</b>	<b>\$ (7,363,421)</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**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**

	2013	2012
Assets:		
Total assets – Major Funds	\$ 7,693,097	\$ 5,300,344
Total assets – Other Funds	1,026,331	1,287,851
Combined total assets	<u>8,719,428</u>	<u>6,588,195</u>
Liabilities:		
Total liabilities – Major Funds	8,168,009	9,036,740
Total liabilities – Other Funds	338,961	542,032
Combined total liabilities	<u>8,506,970</u>	<u>9,578,772</u>
Fund Balances:		
Restricted	5,909,425	5,587,594
Unrestricted	(5,696,967)	(8,591,103)
Combined total fund balances, as restated	<u>212,458</u>	<u>(3,003,509)</u>
<b>Total liabilities and fund balances</b>	<b><u>\$ 8,719,428</u></b>	<b><u>\$ 6,575,263</u></b>

**Table 4  
Changes in Fund Balances**

	2013	2012
Revenues:		
Total revenues – Major Funds	\$ 13,150,445	\$ 14,275,411
Total revenues – Other Funds	2,838,041	2,851,276
Combined total revenues	<u>15,988,486</u>	<u>17,126,687</u>
Expenditures:		
Total expenditures – Major Funds	13,163,130	17,391,189
Total expenditures – Other Funds	2,883,558	3,312,416
Combined total expenditures	<u>16,046,688</u>	<u>20,703,605</u>
Other financing sources (uses):		
Proceed from issuance of bonds	4,700,000	1,980,000
Transfer – In	112,465	332,741
Transfer – Out	(112,465)	(332,741)
Combined other financing sources (uses), net	<u>4,700,000</u>	<u>1,980,000</u>
Net changes in fund balance	4,641,798	(1,596,918)
Fund Balance – beginning, as restated	(4,429,340)	(2,832,422)
<b>Fund Balance – ending</b>	<b><u>\$ 212,458</u></b>	<b><u>\$ (4,429,340)</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**GOVERNMENTAL FUNDS**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2013, the Municipality's governmental funds reported combined ending of \$212,458, an increase of \$4,641,798 from the prior year, as restated, this is mostly due to the issuance of two operational bonds for the payment of several debts.

The Municipality has an unassigned deficit of \$5,696,967 in its General Fund. The remainder of the balance is restricted to indicate that it is not available for new spending because it has already been restricted; (a) to pay debt service \$1,877,388 and (b) for other restricted purposes \$4,032,037.

**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 2013 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- The original budget was amended during the fiscal year 2012-2013 by changes between the expenditures accounts.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2013 amounted to \$17,349,546 (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 \$112,009. Additions during the fiscal year were principally for purchase of new vehicles and equipment, necessary to provide services to our citizens. **Table 5** presents the major classes of capital assets.

<b>Capital Assets (net of depreciation)</b>	<b>Amount</b>
Construction in progress	\$ 160,796
Land	5,893,658
Buildings	6,573,836
Infrastructure	4,339,311
Machinery and equipment	159,033
Vehicles	222,912
<b>Total Assets</b>	<b>\$ 17,349,546</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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**LONG-TERM DEBT**

At June 30, 2013, the Municipality had total of \$27,112,869 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$17,260,000 comprises debt backed by the full faith and credit of the government and \$9,852,869 is other obligations.

<b>Long Term Debts</b>	<b>Amount</b>
General obligations	\$ 17,260,000
Others	<u>9,852,869</u>
<b>Total Long Term Debts</b>	<b><u>\$ 27,112,869</u></b>

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 2014 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 Position  
June 30, 2013

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 961,465
Cash with fiscal agent	5,010,985
Accounts receivable:	
Municipal license tax	85
Intergovernmental	70,106
Sales and use tax	23,353
Property tax	180,342
Royalty	9,469
Federal grant	112,736
Capital assets:	
Non depreciable capital assets	6,054,454
Other capital assets, net of depreciation	11,295,092
Total capital assets	17,349,546
<b>Total assets</b>	\$ 23,718,087
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 2,035,234
Due to other governmental entities	1,661,832
Claims and Judgments	104,400
Bonds payable	825,000
Interest payable	381,084
Deferred revenues:	
Municipal license tax	953,290
Property tax	96,898
Federal grant revenues	98,345
Noncurrent liabilities:	
Due within one year	1,282,023
Due in more than one year	24,880,795
<b>Total liabilities</b>	\$ 32,318,901
<b>Net Position</b>	
Invested in capital assets, net of related debt	15,409,546
Restricted for:	
Capital projects	2,429,889
Debt service	1,877,388
Other purposes	1,602,148
Unrestricted (deficit)	(29,919,785)
<b>Total net position</b>	\$ (8,600,814)

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

Commonwealth of Puerto Rico  
Municipality of Salinas  
Statement of Activities  
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
					Governmental Activities
General Government	\$ 5,737,469	\$ 140,410	\$ 425,320	\$ -	\$ (5,171,739)
Public Safety	1,914,108	17,859	118,144	-	(1,778,105)
Public Works	4,078,731	-	1,346,845	198,532	(2,533,354)
Health and Welfare	2,003,575	-	569,163	-	(1,434,412)
Culture and Recreation	1,155,863	66,256	354,433	-	(735,174)
Community Development	1,450,355	-	-	-	(1,450,355)
Economic Development	21,191	-	-	-	(21,191)
Education	110,409	-	-	-	(110,409)
Interest on long-term debt	754,176	-	-	-	(754,176)
<b>Total governmental activities</b>	<b>\$ 17,225,877</b>	<b>\$ 224,525</b>	<b>\$ 2,813,905</b>	<b>\$ 198,532</b>	<b>\$ (13,988,915)</b>
General revenues:					
					3,228,308
					1,399,156
					1,595,692
					6,446,621
					16,643
					65,102
					12,751,522
					(1,237,393)
					(7,363,421)
					\$ (8,600,814)

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

Commonwealth of Puerto Rico  
Municipality of Salinas  
Balance Sheet  
Governmental Funds  
June 30, 2013

	General Fund	State Assignment Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 876,503	\$ 4,727	\$ -	\$ 80,235	\$ 961,465
Cash with fiscal agent	1,418,532	-	3,021,971	570,482	5,010,985
Accounts receivable:					
Municipal license tax	85	-	-	-	85
Property tax	118,841	-	61,501	-	180,342
Intergovernmental	-	-	-	70,106	70,106
Sales and use tax	23,353	-	-	-	23,353
Royalty	9,469	-	-	-	9,469
Federal grant	-	-	-	112,736	112,736
Due from other funds	236,707	1,921,408	-	192,772	2,350,887
<b>Total assets</b>	<b>\$ 2,683,490</b>	<b>\$ 1,926,135</b>	<b>\$ 3,083,472</b>	<b>\$ 1,026,331</b>	<b>\$ 8,719,428</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities :</b>					
Accounts payable and accrued liabilities	\$ 2,031,325	\$ -	\$ -	\$ 3,909	\$ 2,035,234
Due to other governmental entities	1,661,832	-	-	-	1,661,832
Due to other funds	2,114,180	-	-	236,707	2,350,887
Claims and Judgments	104,400	-	-	-	104,400
Deferred revenues:					
Municipal license tax	953,290	-	-	-	953,290
Property tax	96,898	-	-	-	96,898
Federal grant revenues	-	-	-	98,345	98,345
Principal payable	-	-	825,000	-	825,000
Interest payable	-	-	381,084	-	381,084
<b>Total liabilities</b>	<b>6,961,925</b>	<b>-</b>	<b>1,206,084</b>	<b>338,961</b>	<b>8,506,970</b>
<b>Fund balances:</b>					
Restricted	1,418,532	1,926,135	1,877,388	687,370	5,909,425
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	(5,696,967)	-	-	-	(5,696,967)
<b>Total fund balances</b>	<b>(4,278,435)</b>	<b>1,926,135</b>	<b>1,877,388</b>	<b>687,370</b>	<b>212,458</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,683,490</b>	<b>\$ 1,926,135</b>	<b>\$ 3,083,472</b>	<b>\$ 1,026,331</b>	<b>\$ 8,719,428</b>

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

Commonwealth of Puerto Rico  
Municipality of Salinas  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Position  
For the Year Ended June 30, 2013

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**Total Fund Balances - Governmental Funds** \$ 212,458

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

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

Non Depreciable Capital Assets	\$	6,054,454	
Depreciable Capital Assets		20,186,420	
Accumulated Depreciation		(8,891,328)	
<b>Total Capital Assets</b>			<b>17,349,546</b>

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		17,260,000	
Property tax - Law 42		949,535	
Property tax - Law 146		182,714	
Claims and Judgments		1,040,121	
Landfill		4,073,592	
Repayment Plan - Department of Labor		63,036	
Repayment Plan - State Insurance Fund Corporation		23,324	
Repayment Plan - Puerto Rico Treasury Department		958,716	
State Insurance Health Administration		1,494,795	
Compensated Absences		1,067,036	
<b>Total Long-Term Liabilities</b>			<b>(27,112,869)</b>

**Total Net Position of Governmental Activities** \$ (9,550,865)

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

Commonwealth of Puerto Rico  
Municipality of Salinas  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2013

	General Fund	State Assignment Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 2,145,939	\$ -	\$ 1,082,369	\$ -	\$ 3,228,308
Municipal sales and use tax	867,846	-	727,846	-	1,595,692
Municipal license taxes	1,399,156	-	-	-	1,399,156
Licenses, permits and other local taxes:	650,075	-	-	-	650,075
Intergovernmental	5,796,547	174,397	-	473,314	6,444,258
Rent of property	66,256	-	-	-	66,256
Fines and forfeitures	17,859	-	-	-	17,859
Interest	16,643	-	-	-	16,643
Charge for services	140,410	-	-	-	140,410
Federal grants	-	-	-	2,364,727	2,364,727
Miscellaneous	65,102	-	-	-	65,102
<b>Total revenues</b>	<b>\$ 11,165,833</b>	<b>\$ 174,397</b>	<b>\$ 1,810,215</b>	<b>\$ 2,838,041</b>	<b>\$ 15,988,486</b>
<b>Expenditures</b>					
Current:					
General Government	4,884,197	-	-	273,571	5,157,768
Public Safety	1,685,690	-	-	141,808	1,827,498
Public Works	2,630,799	2	-	342,448	2,973,249
Health and Welfare	1,194,703	-	-	760,954	1,955,657
Culture and Recreation	976,963	-	-	-	976,963
Community Development	-	-	-	1,343,586	1,343,586
Economic Development	-	-	-	21,191	21,191
Education	116,600	-	-	-	116,600
Debt service:					
Principal	-	-	920,000	-	920,000
Interest	-	-	754,176	-	754,176
<b>Total expenditures</b>	<b>11,488,952</b>	<b>2</b>	<b>1,674,176</b>	<b>2,883,558</b>	<b>16,046,688</b>
Excess (deficiency) of revenues over (under) expenditures	(323,119)	174,395	136,039	(45,517)	(58,202)
Other financing sources (uses):					
Transfers in	2,001	-	110,464	-	112,465
Transfers out	(110,464)	-	(2,001)	-	(112,465)
Long-term debt issued	4,700,000	-	-	-	4,700,000
<b>Total other financing sources (uses)</b>	<b>4,591,537</b>	<b>-</b>	<b>108,463</b>	<b>-</b>	<b>4,700,000</b>
<b>Net changes in fund balances</b>	<b>4,268,418</b>	<b>174,395</b>	<b>244,502</b>	<b>(45,517)</b>	<b>4,641,798</b>
Fund balance, beginning as restated	(8,546,853)	1,751,740	1,632,886	732,887	(4,429,340)
Fund balance, ending	<b>\$ (4,278,435)</b>	<b>\$ 1,926,135</b>	<b>\$ 1,877,388</b>	<b>\$ 687,370</b>	<b>\$ 212,458</b>

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

Commonwealth of Puerto Rico  
Municipality of Salinas  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2013

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 4,641,798</b>
 Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	112,009
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(792,003)
Bonds and notes proceeds provide current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Position. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long -term liabilities in the Government-Wide Statement of Net Position. This is the amount by which the debt proceeds exceed debt service principal payments.	970,000
Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long -term property tax advance debt in the Government-Wide Statement of Net Position. The following amount represent the change in long-term property tax advance debt from prior year.	34,222
Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Position, but they do not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represent the change in long-term compensated absences from prior year.	100,500
Long-term liabilities arising from repayment plans with various governmental entities do not require the use of current financial resources. Therefore, these liabilities were not reported as expenditures in Governmental Funds. The following amount represent the change in long-term repayment plans.	(911,825)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. In the current period, these amounts are:	(4,700,000)
Change in the accrual of long term liability from the State Insurance Health Administration.	(396,937)
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.	<u>(295,157)</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$ <u>(1,237,393)</u></b>

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2013

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**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, 2013, 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, 2013, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**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.

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

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

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

**A. Financial Reporting Entity**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASB Statement No. 14, as amended. The basic, but not the only criterion for including a potential component unit within the reporting entity is if a primary government is financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity’s governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria, the Municipality does not have component units to include within its reporting entity.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**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 Position 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, 2013, has been reported only in the government-wide financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Landfill closure and post-closure costs are recorded as expenditure during the estimated life of the landfill. The amount of these costs during fiscal year 2012-2013 has been reported only in the government-wide financial statements. Claims and judgments are recorded as expenditure when incurred. The amount of claims and judgments unpaid at June 30, 2013, 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.

**Government-Wide Financial Statements**

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

The Statement of Net Position presents the reporting entities' assets and liabilities, with the difference reported as net position. Net position is 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 Position** - These results when constraints are placed on net position 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 Position** – These consists of net position which do not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide Financial Statements (Continued)**

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.

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Governmental Fund Financial Statements (Continued)**

The 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.

**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.

**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's 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's ordinances or state statutes.

**E. Fund Balances**

In fiscal year 2012, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The fund balances are reported in five categories:

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Balances (Continued)

- **Non-spendable** - Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- **Restricted** - Amounts are restricted by external parties (creditors, grantors, contributors or law/ regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.
- **Committed** - Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.
- **Assigned** - Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.
- **Unassigned** - Represent the residual classification for the Municipality's General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

At June 30, 2013, the accompanying fund financial statements reported fund balances as restricted and unassigned.

F. Net Position

Net Position has been reported pursuant to the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Net Position represents the difference between all assets plus deferred outflows of resources and all liabilities plus deferred inflows of resources. The Net Position consists of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net position for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Net Position (Continued)**

A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

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

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

**G. Budgetary Control**

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, 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 Finance Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Finance 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.

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:

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Budgetary Control (Continued)**

1. 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;
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature;
3. 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;
4. Prior to June 2013, the annual budget is legally enacted through passage of the annual appropriation ordinance;
5. 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;
6. 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;
7. 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.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Budgetary Control (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.

**G. Cash, Cash Equivalent and Investment**

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. 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.

**H. 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.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. 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. The inventory is not recorded in the basic financial statements due to its immateriality.

**J. 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
Vehicles	5
Machinery and equipment	3 to 5

**K. 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.

**L. 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.

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Compensated Absences (Continued)**

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.

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, 2013.

Balance June 30, 2012	New Issues	Retirements and Current Maturates	Balance June 30, 2013
\$ 1,167,537	\$ 308,239	\$ 408,740	\$ 1,067,036

**M. 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.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. Interfund Transactions**

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are eliminated in the statement of net position. 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. 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** – Represents repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

**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 of the Government Wide Financial Statements 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.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. Accounting for Pension Costs (Continued)**

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.

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, 2013 amounted to \$318,330. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$229,420 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, 2013:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*). The requirements of this statement are effective for periods beginning after December 15, 2012.
- GASB Statement No. 66, *Technical corrections-2012 – an amendment of GASB Statements No. 10 and No.62*. The requirements of this statement are effective for periods beginning after December 15, 2012.
- GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The requirements of this statement are effective for periods beginning after June 15, 2013.
- GASB Statement No. 68 *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. The requirements of this statement are effective for periods beginning after June 15, 2014.

The Authority's management has concluded that the future adoption of these GASB Statements will not have a significant impact on the Authority's basic financial statements.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**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 risk that applies to the Municipality is the custodial risk.

**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, 2013. Therefore, the Municipality's management has concluded that at June 30, 2013 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

The Municipality's bank balances in commercial banks of \$876,503 in the General Fund, \$4,727 in the State Assignment Fund and \$80,235 in the Other Governmental Funds were fully collateralized at June 30, 2013.

The deposits at GDB of \$1,418,532 in the General Fund, the \$3,021,971 in the Debt Service Fund, and the \$570,482 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 Receivable**

Property taxes receivable amounting to \$118,841 in the General Fund represents \$96,898 of the final liquidation of the property taxes of the fiscal year 2012-2013, not collected by the Municipality at June 30, 2013 and \$21,943 of retentions made in excess during the fiscal year. In addition, property taxes receivable in Debt Service Fund in the amount of \$61,501 represents the amount due of property taxes at June 30, 2013.

**B. Sales Tax Receivable**

As described below in Note 13, the Municipal Legislature approved the imposition of the municipal sales and use tax during the 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.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

**NOTE 3 – RECEIVABLES (CONTINUED)**

**B. Sales Tax Receivable (Continued)**

Tax is due each 20th day of each month based on tax collected in the preceding month. Therefore, sales tax receivable of \$23,353 in the General Fund represents the amounts due by the taxpayers at June 30, 2013.

**C. Federal Grants Receivable**

Federal grants receivable in the 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	<u>Amount</u>
Community Development Block Grant – State Program	\$ 81,849
Homelessness Prevention	<u>30,887</u>
<b>Total</b>	<b><u>\$ 112,736</u></b>

**D. Royalty Receivables**

Royalty receivables amounting \$9,469 in the general fund represent the amount collected related to waste disposal services corresponding to June 2013.

**E. Due From Other Funds**

Interfund receivables and payables at June 30, 2013 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed	\$ 236,707
State Assignment Fund	General Fund	Reimbursable expenditures	1,921,408
Other Governmental Funds	General Fund	Reimbursable expenditures	<u>192,772</u>
<b>Total</b>			<b><u>\$ 2,350,887</u></b>

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

**NOTE 4 – CAPITAL ASSETS**

Capital assets; those with an estimated useful-life 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 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

<b>Governmental Activities</b>	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Retirements / Reclassification</b>	<b>Balance June 30, 2013</b>
Capital asset, not being depreciated:				
Land	\$ 5,893,658	\$ -	\$ -	\$ 5,893,658
Construction in progress	160,796	-	-	160,796
<b>Total capital assets not being depreciated</b>	<b>6,054,454</b>	<b>-</b>	<b>-</b>	<b>6,054,454</b>
Capital assets, being depreciated:		-	-	
Buildings	9,899,793	-	-	9,899,793
Infrastructure	6,301,664	-	-	6,301,664
Machinery and equipment	1,263,089	86,040	-	1,349,129
Motor vehicles	2,609,865	25,969	-	2,635,834
<b>Total capital assets being depreciated</b>	<b>20,074,411</b>	<b>112,009</b>	<b>-</b>	<b>20,186,420</b>
Less accumulated depreciation for:			-	
Buildings	(3,089,735)	(236,222)	-	(3,325,957)
Infrastructure	(1,533,187)	(429,166)	-	(1,962,353)
Machinery and equipment	(1,145,886)	(44,210)	-	(1,190,096)
Motor vehicles	(2,330,517)	(82,405)	-	(2,412,922)
<b>Total accumulated depreciation</b>	<b>(8,099,325)</b>	<b>(792,003)</b>	<b>-</b>	<b>(8,891,328)</b>
<b>Total capital assets being depreciated, net</b>	<b>11,975,086</b>	<b>(679,994)</b>	<b>-</b>	<b>11,295,092</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 18,029,540</b>	<b>(679,994)</b>	<b>-</b>	<b>\$ 17,349,546</b>

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

<b>Government Activities</b>	<b>Amount</b>
General Government	\$168,013
Community Development	71,528
Public Safety	79,371
Public Works	455,774
Culture and Recreation	13,083
Education	1,113
Human Services and Welfare	3,121
<b>Total depreciation expenses</b>	<b>\$792,003</b>

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.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

**NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued expenses liabilities in governmental fund financial statements represent expenditures incurred during the fiscal year 2012-2013, and not paid by the Municipality at June 30, 2013. Following is a detail of these accounts payable and accrued liabilities:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 1,896,825	\$ 134,500	\$ 2,031,325
Other Governmental Funds	3,909	-	3,909
<b>Total</b>	<b>\$ 1,900,734</b>	<b>\$ 134,500</b>	<b>\$ 2,035,234</b>

**NOTE 6 – DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2013, balance due to other governmental units consists of the following:

<u>Governmental Agency</u>	<u>Amount</u>
Internal Revenue Service	\$ 767,288
Puerto Rico Aqueduct and Sewer Authority	211,757
General Services Administration	3,134
Retirement System Administration	385,647
Commonwealth of Puerto Rico Treasury Department	36,703
Puerto Rico Telephone Company	56,081
Commonwealth of Puerto Rico Employee Association	152,871
Department of Labor – Unemployment Program	48,351
<b>Total</b>	<b><u>\$ 1,661,832</u></b>

**NOTE 7 – CLAIMS AND JUDGMENTS**

Liabilities of \$104,400 reported in the General Fund represent the balance owed for debt agreements and claims and judgments at June 30, 2013.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

**NOTE 8 – DEFERRED REVENUES**

- A. Volume of business tax** – The deferred revenues of \$953,290 in the General Fund relates to the volume of business tax collected in fiscal year 2012-2013 that will be earned in fiscal year 2013-2014. The deferred revenues of \$96,898 relates to the 2012-2013 property tax final liquidation.
- B. Federal Grants** – The deferred revenues presented in Other Governmental Funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
American Recovery and Reinvestment Act	\$ 26,734
Public Assistance Grants	62,705
Brownfields Petroleum	7,818
Brownfields Hazardous	<u>1,088</u>
<b>Total</b>	<b><u>\$ 98,345</u></b>

**NOTE 9 – GENERAL LONG-TERM DEBTS**

Long-term liability activity for the year ended June 30, 2013 was as follows:

<u>Description</u>	<u>Beginning Balance, as restated</u>	<u>Borrowings or Additions and Adjustment</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 12,890,000	\$ 4,700,000	\$ (750,000)	\$ 16,840,000	\$ 740,000
Notes Payable	640,000	-	(220,000)	420,000	100,000
Property Tax Debt – Law 42	974,140	-	(24,605)	949,535	26,151
Property Tax Debt-Law 146	192,331	-	(9,617)	182,714	9,617
Landfill obligation	4,073,592	-	-	4,073,592	-
Compensated Absences	1,167,537	308,239	(408,740)	1,067,036	-
Claims and Judgments	1,040,121	-	(950,051)	90,070	90,070
State Insurance Health Administration	1,097,858	396,937	-	1,494,795	-
Department of Labor Repayment Plan	68,766	-	(5,731)	63,036	22,921
State Retirement System Repayment Plan	64,485	-	(64,485)	-	-
State Insurance Fund Repayment Plan	-	106,508	(83,184)	23,324	23,324
Puerto Rico Treasury Department Repayment Plan	-	1,079,769	(121,053)	958,716	269,940
<b>Total</b>	<b><u>\$ 22,208,830</u></b>	<b><u>\$ 6,591,453</u></b>	<b><u>\$ (2,637,466)</u></b>	<b><u>\$ 26,162,818</u></b>	<b><u>\$ 1,282,023</u></b>

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

**NOTE 9 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**A. GENERAL OBLIGATIONS BONDS**

The Municipality issues general and special bonds, 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 payables as of June 30, 2013, are comprised of the following issues:

<u>Description</u>	<u>Balance at June 30, 2013</u>
1997 Series general obligation bonds for operational purposes with an original amount of \$2,240,000 due in installments of \$55,000 to \$200,000 through July 1, 2017, with interest ranging from 6.00% to 8.00%	\$ 720,000
2002 Series general obligation bonds for public improvement with an original amount of \$1,495,000 due in installments of \$20,000 to \$115,000 through July 1, 2027, with interest ranging from 4.17% to 5.31%	1,110,000
2004 Series general obligation bonds for operational purposes with an original amount of \$1,710,000 due in installments of \$30,000 to \$125,000 through July 1, 2028, with interest ranging from 1.53% to 6.62%	1,300,000
2004 Series general obligation bonds for operational purposes with an original amount of \$385,000 due in installments of \$5,000 to \$25,000 through July 1, 2027, with interest ranging from 1.53% to 6.50%	300,000
2004 Series general obligation bonds for operational purposes with an original amount of \$805,000 due in installments of \$15,000 to \$65,000 through July 1, 2028, with interest ranging from 1.53% to 6.00%	615,000
2007 Series general obligation bonds for operational purposes with an original amount of \$1,005,000 due in installments of \$50,000 to \$120,000 through July 1, 2018, with interest ranging from 1.53% to 6.60%	520,000
2009 Series general obligation bonds for operational purposes with an original amount of \$725,000 due in installments of \$45,000 to \$100,000 through July 1, 2018, with interest ranging from 1.53% to 6.00%	430,000
2010 Series general obligation bonds for purchase of building with an original amount of \$645,000 due in installments of \$10,000 to \$55,000 through July 1, 2034, with interest ranging from 4.75% to 7.50%	605,000
2010 Series general obligation bonds for operational purposes with an original amount of \$1,635,000 due in installments of \$45,000 to \$160,000 through July 1, 2027, with interest ranging from 5.00% to 6.50%	1,430,000

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

**NOTE 9 – GENERAL LONG-TERM DEBTS (CONTINUED)**

<u>Description</u>	<u>Balance at June 30, 2013</u>
2011 Series special obligation bonds for operational purposes with an original amount of \$3,760,000 due in installments of \$50,000 to \$315,000 through July 1, 2035, with interest ranging from 6.00% to 7.50%	\$ 3,585,000
2012 Series special obligation bonds for operational purposes with an original amount of \$905,000 due in installments of \$15,000 to \$80,000 through July 1, 2036, with interest ranging from 6.00% to 7.50%	875,000
2012 Series special obligation bonds for operational purposes with an original amount of \$780,000 due in installments of \$30,000 to \$85,000 through July 1, 2026, with interest ranging from 6.00% to 7.50%	720,000
2013 Series general obligation bonds for operational purposes with an original amount of \$3,325,000 due in installments of \$50,000 to \$275,000 through July 1, 2036, with interest ranging from 6.00% to 7.50%	3,275,000
2013 Series general obligation bonds for operational purposes with an original amount of \$1,375,000 due in installments of \$20,000 to \$120,000 through July 1, 2037, with interest ranging from 6.00% to 7.50%	<u>1,355,000</u>
<b>Total</b>	<b><u>\$ 16,840,000</u></b>

The annual requirements to amortize the bonds payable outstanding as of June 30 are as follows:

<u>Year Ending June 30,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total</u>
2014	\$ 740,000	\$ 1,135,300	\$ 1,875,300
2015	795,000	1,098,839	1,893,839
2016	855,000	1,044,194	1,899,194
2017	900,000	985,548	1,885,548
2018	755,000	930,865	1,685,865
2019-2023	3,335,000	4,006,033	7,341,033
2024-2028	4,225,000	2,690,324	6,915,324
2029-2033	2,945,000	1,442,813	4,387,813
2034-2037	2,290,000	295,875	2,585,875
<b>Total</b>	<b><u>\$ 16,840,000</u></b>	<b><u>\$ 13,629,791</u></b>	<b><u>\$ 30,469,791</u></b>

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

**NOTE 9 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**B. NOTES PAYABLE**

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

Type of notes	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2013
2010-General obligations notes	7-1-16	390,000	6.00% to 7.00%	\$ 195,000
2011-General obligations notes	7-1-18	295,000	6.00% to 7.50%	225,000
<b>Total notes payable</b>				<b>\$ 420,000</b>

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

Year Ending June 30,	Principal	Interest
2014	\$ 100,000	\$ 26,925
2015	105,000	19,550
2016	115,000	11,638
2017	50,000	5,625
2018	50,000	1,875
<b>Total</b>	<b>\$ 420,000</b>	<b>\$ 65,613</b>

**C. 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, 2033. The outstanding balance of the note payable to the CRIM at June 30, 2013 amounted to \$949,535.

**D. COMPENSATED ABSENCES**

The government-wide statement of net position includes \$1,067,036 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 9 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**E. 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, 2013 amounted to \$182,714.

**F. CLAIMS AND JUDGMENTS**

Liabilities of \$90,070 reported in the statement of net position represent the balance owed for claims and judgments at June 30, 2013, as described in Note 17.

**G. ESTIMATED LANDFILL CLOSURE AND POST-CLOSURE CARE COST**

According to the regulations set forth by the U.S. Environment Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991, the Municipality is required to place a final cover on the Municipality's landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Municipality has not performed a study in accordance with GASB No. 18, to verify 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. The Municipality's management has recognized a liability of \$4,073,592 in the accompanying GWFS using an estimate of the closing and post-closing costs at June 30, 2013. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. At June 30, 2013, the Municipality's landfill is still operating and its remaining estimated useful life is not determinable.

**H. STATE INSURANCE HEALTH ADMINISTRATION**

Liabilities of \$1,494,795 reported in the statement of net position represent the balance owed for services provided by the State Insurance Health Administration to the Municipality and not paid at June 30, 2013.

**I. STATE DEPARTMENT OF LABOR DEBT AGREEMENT**

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, 2013 of this agreement was \$63,036.

**J. STATE RETIREMENT SYSTEM ADMINISTRATION DEBT AGREEMENT**

The Municipality entered into a financing agreement with the State Retirement System Administration, for the payment of the special laws and accumulated interests. At June 30, 2013 this debt was paid in its entirety.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 9 – GENERAL LONG-TERM DEBTS (CONTINUED)**

**K. STATE INSURANCE FUND DEBT AGREEMENT**

The Municipality entered into a financing agreement with the State Insurance Fund Corporation for the payment of the Municipality's debt for workers compensation insurance. The balance at June 30, 2013 of this agreement was \$23,324.

**L. PUERTO RICO TREASURY DEPARTMENT**

The Municipality entered into a financing agreement with the Puerto Rico Treasury Department for the payment of the Municipality's debt for income taxes withholdings. The balance at June 30, 2013 of this agreement was \$958,716.

**NOTE 10 – 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 11 – 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, 2013 was 8.53 % (of which taxpayers pay 8.33 % and 0.20 % is reimbursed by the Department of Treasury); after June 30, 2013, 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, 2013 was 10.53 % (of which 10.33 % 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 BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 11 – 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 12 – 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, 2013, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for other types of taxpayers.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 12 – VOLUME OF BUSINESS TAXES (CONTINUED)**

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.

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 8).

**NOTE 13 – 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 sale and use tax of 5.5 % to be imposed by the Commonwealth Government. Act 117 also authorizes each municipality government to impose 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 overall 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

**NOTE 14 – 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 and Other Governmental Funds.

**NOTE 15 – INTERFUND TRANSFERS**

Interfund transfers during the fiscal year ended at June 30, 2013, are summarized as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt retirement	\$ 110,464
Debt Service Fund	General Fund	To cover operational costs	2,001
		<b>Total</b>	<b><u>\$ 112,465</u></b>

**NOTE 16 – 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.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

**NOTE 16 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

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 defined 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.

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 April 1, 1990).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 16 – EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

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.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2013 was approximately \$230,757. 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, 2013. 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.

**NOTE 17 – CONTINGENCIES**

**CLAIMS AND JUDGMENTS**

The Municipality is, at present, a defendant in a number of legal matters, which claims amount to \$5,972,000 at June 30, 2013 and 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 \$104,400 in the General Fund for awarded unfavorable judgments, plus \$90,070 in the government wide statement of net position in addition to the amount reported in the General Fund.

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

**NOTE 17 – CONTINGENCIES (CONTINUED)**

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 cannot determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

**FEDERAL 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 18 – FUND BALANCE (DEFICIT)**

As of June 30, 2013, the fund balance (deficit) classifications are as follows:

Fund Balance (Deficit)	General Fund	State Assignment Fund	Debt Service Fund	Other Governmental Fund	Total
<b>Restricted for:</b>					
General Government	\$1,418,532	\$ -	\$ -	\$ 76,980	\$ 1,495,512
Public Safety	-	-	-	340	340
Public Works	-	174,395	-	572,747	747,142
Health and Welfare	-	-	-	24,593	24,593
Urban Development	-	1,751,740	-	-	1,751,740
Economic Development	-	-	-	12,710	12,710
Debt Service	-	-	1,877,388	-	1,877,388
Unassigned	(5,696,967)	-	-	-	(5,696,967)
<b>Total Fund Balance(Deficit)</b>	<b>\$ (4,278,435)</b>	<b>\$ 1,926,135</b>	<b>\$ 1,877,388</b>	<b>\$ 687,370</b>	<b>\$ 212,458</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

**NOTE 19 – 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 Funds	Total
Fund balance beginning	\$(8,546,853)	\$1,751,740	\$1,739,890	\$ 745,819	\$(4,309,404)
Fund balance reclassification	-	-	(107,004)	(12,932)	(119,936)
Fund balance, beginning as restated	<u>\$(8,546,853)</u>	<u>\$1,751,740</u>	<u>\$1,632,886</u>	<u>\$732,887</u>	<u>\$(4,429,340)</u>

**B. GOVERNMENT 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 position:

Description	Total
Net position, beginning	\$(8,319,158)
To restate Long term liabilities – Department of Labor debt agreement balance	5,686
To restate Long term liabilities – Claims and Judgments	950,051
Net position, beginning as restated	<u>\$(7,363,421)</u>

**NOTE 20 – 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 prior years the General Fund of the Municipality had suffered recurring excess of expenditures over revenues, which have led to an accumulated deficit in the General Fund of \$8,546,853 at June 30, 2012. However, the Municipality obtained an operational loan of \$4.7 millions, which reduced the General Fund balance to \$4,278,435 at June 30, 2013. The long term solution for this situation is to bring the expenditures in line with revenues, which the Municipality's management is implementing economic measures to attain such goal.

Among the actions that management is considering are: the continuation of 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

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**NOTE 21 – SUBSEQUENT EVENTS**

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through March 24, 2014, the date in which the basic financial statements were available to be issued and there were none to be disclosed.

COMMONWEALTH OF PUERTO RICO  
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BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 2,145,938	\$ 2,145,938	\$ 2,145,939	\$ 1
Municipal license tax	1,001,300	1,001,300	1,399,071	397,771
Municipal sales and use tax	1,018,000	1,018,000	844,492	(173,508)
Licenses, permits and other local taxes	1,740,270	1,740,270	650,075	(1,090,195)
Charges for Services	145,000	145,000	140,410	(4,590)
Intergovernmental	5,784,662	5,784,662	4,448,087	(1,336,575)
Fines and forfeiture	70,000	70,000	17,859	(52,141)
Rent of property	100,000	100,000	66,256	(33,744)
Interest	98,000	98,000	16,643	(81,357)
Miscellaneous	<u>507,000</u>	<u>507,000</u>	<u>33,690</u>	<u>(473,310)</u>
<b>Total revenues</b>	<u>12,610,170</u>	<u>12,610,170</u>	<u>9,762,522</u>	<u>(2,847,648)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General Government	4,820,275	4,610,889	4,125,963	484,926
Public Safety	1,787,123	1,916,668	1,666,376	250,292
Public Works	3,049,017	3,336,828	2,262,997	1,073,831
Public Housing and Welfare	1,558,095	1,490,625	1,193,613	297,012
Culture and Recreation	1,085,836	1,002,836	926,222	76,614
Education	178,228	120,728	105,420	15,308
Urban Economic Development	38,096	38,096	-	38,096
Operating transfer to other fund	<u>93,500</u>	<u>93,500</u>	<u>93,500</u>	<u>-</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>12,610,170</u>	<u>12,610,170</u>	<u>10,374,091</u>	<u>2,236,079</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (611,569)</u>	<u>\$ (611,569)</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis)*available for appropriation" from the budgetary comparison schedule			\$ 9,762,522	
Differences-budget to GAAP:				
GAAP adjustments to revenues			1,403,311	
Non-budgeted transfer in			2,001	
Long-term debt issued			<u>4,700,000</u>	
<b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>			<u>\$ 15,867,834</u>	
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule			\$ 10,374,091	
Differences-budget to GAAP:				
Non-budgeted expenditures			1,208,361	
Non-budgeted transfer out			<u>16,964</u>	
<b>Total expenditures and other financing uses on the statement of revenues, expenditures and changes in fund balances</b>			<u>\$ 11,599,416</u>	

See accompanying Notes to Budgetary Comparison Schedule – General Fund

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
YEAR ENDED JUNE 30, 2013

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**NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY CONTROL**

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

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2013 representing the original budget.



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

Certified Public Accountants and Financial Consultants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Salinas of the Commonwealth of Puerto Rico (the Municipality), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 24, 2014. We did not express an opinion on the governmental-wide financial statements because we were unable to obtain sufficient and competent evidential matter related to capital assets and estimated landfill closure and post-closure care cost liability.

**Internal Control Over Financial Reporting**

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

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

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

(Continued)

Internal Control Over Financial Reporting (Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs 13-II-1, 13-II-2 and 13-II-3 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. There were no significant deficiency as described in the accompany Schedule of Findings and Questioned Costs.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Municipality's Response to Findings**

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

**Purpose of this Report**

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

*Nieves Velazquez & Co., P.S.C.*  
NIEVES VELAZQUEZ & CO., P.S.C.

San Juan, Puerto Rico  
March 24, 2014

CPA Stamp No. 02696609 was affixed to the original of this report.





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

Certified Public Accountants and Financial Consultants

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

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

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

We have audited the Municipality of Salinas of the Commonwealth of Puerto Rico (the Municipality) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Municipality of Salinas of the Commonwealth of Puerto Rico major federal programs for the year ended June 30, 2013. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Municipality's compliance.

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

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

In our opinion, the Municipality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2013.

***Other Matters***

The results of our auditing procedures did not disclose other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133. Our opinion on each major federal program is not modified with respect to these matters.

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

**Report on Internal Control Over Compliance**

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

**Purpose of this Report**

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

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

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

San Juan, Puerto Rico  
March 24, 2014

CPA Stamp No. 02696610 was affixed  
to the original of this report.



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program:			
Section 8 Housing Choice Voucher	14.871		\$ 517,527
Pass-through the Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State's Program	14.228	Not Available	<u>1,343,586</u>
Total U.S. Department of Housing and Urban Development:			<u>1,861,113</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY:			
Direct Program:			
Brownfields Petroleum Assessment (Recovery Act Funded)	66.818		13,775
Direct Program:			
Brownfields Hazardous Substances Assessment (Recovery Act Funded)	66.818		<u>19,085</u>
Total U.S. Environmental Protection Agency:			<u>32,860</u>
U.S. DEPARTMENT OF ENERGY:			
Pass-through the Commonwealth of Puerto Rico Administration of Energy Affairs:			
Energy Efficiency Conservation Block Grant (Recovery Act Funded)	81.128	Not Available	<u>21,191</u>
Total U.S. Department of Energy:			<u>21,191</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Administration for Children and Family:			
Child Care and Development Block Grant	93.575	Not Available	92,094
Total U.S. Department of Health and Human Services:			<u>92,094</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico – Governor’s Authorized Representative Office (GAR):			
Disaster Grants – Public Assistance	97.036	Not Available	342,448
Total U.S. Department of Homeland Security:			<u>342,448</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,349,706</u>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2013

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Salinas and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

Description	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$2,349,706	\$2,349,706
Non - federal programs Expenditures	533,852	533,852
Total expenditures in the fund financial statements	\$2,883,558	\$2,883,558

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

**Financial Statements**

Type of Auditor’s Report issued

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

Disclaimer  
Unqualified

Internal Control Over Financial Reporting:

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

Yes       No  
 Yes       No

Noncompliance material to financial statement noted?

Yes       No

**Federal Awards**

Internal Control Over Major Programs:

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

Yes       No  
 Yes       No

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

Unmodified

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

Yes       No

Identification of Major Programs:

CFA Number(s)

Name of Federal Program

14.228  
14.871

Community Development Block Grant  
Section 8 Housing Choice Voucher

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

**\$300,000**

Audit qualified as low-risk audited?

Yes       No

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING: 13-II-1

REQUIREMENT: ✓ ACCOUNTING RECORDS AND FINANCIAL STATEMENT

CONDITION:

During our examination of the accounting cycle, we noted that the Municipality has not established an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles. The accounting records are maintained in the cash and budgetary basis and at the end of year; personnel of the finance department and external consultants, summarized in electronic worksheets, the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long term debts. These worksheets are used for the preparation of the financial statements.

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

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

CRITERIA:

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

*Hallazgo  
con Resumen (Tipo Hallazgo)*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

**FINDING:** 13-II-1 (Continued)

**REQUIREMENT:** ACCOUNTING RECORDS AND FINANCIAL STATEMENT (Continued)

**CAUSE:** Lack of internal control to maintain updated accounting records.

**EFFECT:** The Municipality's Government Wide Financial Statement do not present fairly, the financial position of the governmental activities.

**RECOMMENDATION:** The Municipality should maintain complete and adequate records in order to obtain sufficient and competent accounting information.

**QUESTIONED COST:** NONE

**MANAGEMENT RESPONSE:** The Municipality hires every year an external consultant to prepare the financial statements from the availability accounting computerized and manual systems. Also, the Municipality acquired a new accounting software system.

*Acción  
Tomada*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

<b>FINDING:</b>	13-II-2
<b>REQUIREMENT:</b>	ACCOUNTING RECORDS – PROPERTY, PLANT AND EQUIPMENT
<b>CONDITION:</b>	At June 30, 2013, the Municipality does not have an effective system to account for capital assets, principally the infrastructure assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality has not recorded depreciation expense for the infrastructure not reported in the subsidiary ledger. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality has not performed periodical physical inventories of its Capital Assets during the last two fiscal years. This finding is repeated from prior years.
<b>CRITERIA:</b>	Article 10.002 of State Law Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991, stated that Municipality should maintain updated property accounting records.
<b>CAUSE:</b>	The Municipality did not maintain an adequate control of the accountability of its capital assets.
<b>EFFECT:</b>	The Municipality's Government Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in net assets of the Municipality.
<b>RECOMMENDATION:</b>	We recommend management and the Property Division of the Municipality to make an inventory of the capital assets and reconcile with the capital assets subsidiary ledger. In addition, the Municipality should implement adequate internal control procedures to improve the accountability of its infrastructure assets.
<b>QUESTIONED COSTS:</b>	NONE
<b>MANAGEMENT RESPONSE:</b>	The Municipality acquired a new accounting software system which expect to correct this finding. Also, instructions were given to the employee in charge of the property to update the property accounting records.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

<b>FINDING:</b>	13-II-3
<b>REQUIREMENT:</b>	MUNICIPAL SOLID WASTE LANDFILL – GASB 18
<b>CONDITION:</b>	The estimated liability and the related disclosure presented in the financial statement related to costs of closure and post-closure of the municipal solid waste landfill is not based on actual engineering studies. Therefore, we were unable to obtain a reliable base on which those estimates were based. Management believes that the effect in the basic financial statements is not material. However, as years going by the accrual will be material and the amount must be based on reliable sources. This finding is repeated from prior years.
<b>CRITERIA:</b>	The Governmental Accounting Standards Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Cost" require that the Municipality maintain adequate accounting records to support the estimated closing and post-closing are cost.
<b>CAUSE:</b>	The Municipality does not have adequate resources to determine the required cost closure and post-closure of it landfill.
<b>EFFECT:</b>	The Municipality's Governmental Wide Financial Statements do not present fairly the financial position of the governmental activities.
<b>RECOMMENDATION:</b>	We recommend the Municipality's management to have an environmental engineer to perform the required studies and comply with the GASB No. 18.
<b>QUESTIONED COSTS:</b>	NONE
<b>MANAGEMENT RESPONSE:</b>	We expect to hire the recommended professional to perform such studies.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal awards findings nor questioned costs.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/2012	All Programs	1-12	<p style="text-align: center;">Accounting Records and Financial Statements</p> <p>Criteria and Condition:</p> <p>Article 8.010(b) of State Act Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP). In addition, Article 8.010(c), states that uniform accounting system used by the Municipality must produce reliable reports and financial statements, provide complete information about the results of operations of the Municipality and include the necessary internal controls to account for all funds, capital assets and other assets.</p> <p>During our examination of the accounting cycle, we noted that the Municipality has not established an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles. The accounting records are maintained in the cash and budgetary basis and at the end of year; personnel of the finance department and external consultants, summarized in electronic worksheets, the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long-term debts. These worksheets are used for the preparation of the financial statements.</p>	Finding repeated in the current year. (See finding 13-II-1)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/2012	All Programs	1-12	<p>Accounting Records and Financial Statements (Continued)</p> <p>Criteria and Condition (Continued):</p> <p>Also, we noted the following conditions during our evaluation of the accounting cycle:</p> <ul style="list-style-type: none"> <li>a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. These accounting systems do not provide for a self-balancing set of accounts for each fund operated by the Municipality. Both systems have significant differences at June 30, 2012, principally those arising of significant amounts of checks issued manually from the General Fund bank account and the special revenue funds bank accounts.</li> <li>b. Both accounting systems, does not help management to distinguish between expenditures incurred and encumbrances, does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payable and long-term debts.</li> <li>c. No adequate year-end closing entries procedures are made to account for all transactions affecting all funds.</li> </ul>	

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/2012	All Programs	2-12	<p><b>Accounting Records – Property and Equipment</b></p> <p>Criteria and Condition:</p> <p>Article 10.002 of State Law Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991, stated that Municipality should maintain updated property accounting records.</p> <p>At June 30, 2012, the Municipality does not have an effective system to account for capital assets, principally the infrastructure assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality has not recorded depreciation expense for the infrastructure not reported in the subsidiary ledger. The infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality has not performed periodical physical inventories of its capital asset during fiscal year 2011-2012.</p>	<p>Finding is repeated in the current year. (See finding 13-II-2)</p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/2012	All Programs	3-12	<p><b>Municipal Solid Waste Landfill GASB 18</b></p> <p>Criteria and Condition:</p> <p>The estimated liability and the related disclosure presented in the financial statement related to costs of closure and post-closure of the Municipal Solid Waste Landfill is not based on actual engineering studies. Therefore, we were unable to obtain a reliable base on which those estimates were based. Management believes that the effect in the basic financial statements is not material. However, as year going by the accrual will be material and the amount must be based on reliable sources.</p>	<p>Finding is repeated in the current year. (See finding 13-III-3)</p>
06/30/2012	All Programs	4-12	<p><b>General Fund's Accumulated Deficit</b></p> <p>Criteria and Condition:</p> <p>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.</p> <p>During our examination of the financial statements as of and for the fiscal year ended June 30, 2012, we noted that the General Fund has an accumulated deficit of \$8,546,853. Such accumulated deficit is caused by the cumulative results from many years in which expenditures have exceeded revenues.</p>	<p>During the current year the deficit was reduced to \$5,696,967 due principally to on operational loan obtained of \$4.7 million.</p>



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

Oficina de la Alcaldesa

## HOJA DE TRÁMITE

31 de marzo de 2014

**A:** Lcdo. Carlos Santini  
Comisionado de Asuntos Municipales  
Oficina del Comisionado de Asuntos Municipales

**DE:** Jessica González Carbonell  
Ayudante Administrativa de la Alcaldesa  
Municipio de Salinas

Entrega de los siguientes documentos:

1. **Informe Especial Sobre el Cumplimiento con las Recomendaciones del Contralor y la Corrección de las Fallas Señaladas en los Informes de Auditoría M-09-17 del 11 de agosto de 2008, M-10-03 del 24 de julio de 2009 y M-10-07 de 17 de agosto del 2009 al 30 de junio 2013.**
2. **Single Audit**
3. **Plan de Acción Correctiva del Single Audit**
4. **Contrato del Single Audit 2014**

Recibido por: \_\_\_\_\_

Fecha: \_\_\_\_\_

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Tel. (787) 824-3050 Fax (787) 824-7582

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SALINAS

PRIOR YEARS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

Single Audit Report	Program	Finding No.	Finding	Current Status
06/30/2012	CDBG	5-12	<p><b>Davis-Bacon Act</b></p> <p>Criteria and Condition:</p> <p>All laborers and mechanics employed by any contractors or subcontractors of the grantee during any construction in excess of \$2,000, alteration, or repair activity funded, in whole or in part, by the grant shall be paid wages at rates not less than the prevailing wages for similar construction activities in the locality, as determined by the Secretary of Labor, in accordance with Section 3141, 3146 and 3147 of Title 40, United States Code (42 USC 17155 and ARRA, Section 1606).</p> <p>Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR, Part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction"). This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR Section 5.5 and 5.6). This reporting is often done using Optional Form WH-347 which includes the required statement of compliance (OMB No. 1215-0149).</p> <p>As part of our audit procedures we tested four (4) disbursements to compliance with the Davis-Bacon Act for Energy Conservation Block Grant (ARRA Funds). In four (4) of the four (4) disbursements amounting \$64,482 did not submit the payrolls to the Municipality for examination must comply with the requirements the Davis-Bacon Act.</p>	<p>In the current year audit this finding was not repeated.</p>



Commonwealth of Puerto Rico  
**MUNICIPALITY OF SALINAS**

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E INTERVENCION

Office of the Mayor

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**CORRECTIVE ACTION PLAN**  
SINGLE AUDIT  
FISCAL YEAR 2012-2013

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**FINDING 13-II-1 ACCOUNTING RECORDS AND FINANCIAL STATEMENT**

During our examination of the accounting cycle, we noted that the Municipality has not established an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles. The accounting records are maintained in the cash and budgetary basis and at the end of year; personnel of the finance department and external consultants, summarized in electronic worksheets, the revenues, expenditures, encumbrances, capital assets transactions, accounts receivables, accounts payable and long term debts. These worksheets are used for the preparation of the financial statements.

**CORRECTIVE ACTION:**

The Municipality hires every year an external consultant to prepare the financial statements from the availability accounting computerized and manual systems. Also, the Municipality acquired a new accounting software system that will correct this situation.

**FINDING 13-II-2 ACCOUNTING RECORDS – PROPERTY, PLANT AND EQUIPMENT**

At June 30, 2013, the Municipality does not have an effective system to account for capital assets, principally the infrastructure assets. The Municipality does not have adequate internal controls and procedures to ensure that all capitalizable expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality has not recorded depreciation expense for the infrastructure not reported in the subsidiary ledger. These infrastructure assets should be reported as part of the capital assets of the Municipality according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). In addition, the Municipality has not performed periodical physical inventories of its Capital Assets during the last two fiscal years. This finding is repeated from prior years.

**CORRECTIVE ACTION:** The Municipality acquired a new accounting software system which expects to correct this finding. Also, instructions were given to the employee in charge of the property to update the property accounting records.

**FINDING 13-II-3 MUNICIPAL SOLID WASTE LANDFILL GASB 18**

The estimated liability and the related disclosure presented in the financial statement related to costs of closure and post-closure of the municipal solid waste landfill is not based on actual engineering studies. Therefore, we were unable to obtain a reliable base on which those estimates were based. Management believes that the effect in the basic financial statements is not material. However, as years going by the accrual will be material and the amount must be based on reliable sources. This finding is repeated from prior years.



Commonwealth of Puerto Rico  
**MUNICIPALITY OF SALINAS**

**Office of the Mayor**

**CORRECTIVE ACTION:** We expect to hire the recommended professional to perform such studies.

Responsible person: José A. Arocho Pérez

Sincerely,

KARILYN BONILLA COLÓN  
Mayor

JOSÉ A. AROCHO PÉREZ  
Director  
Finance Office