

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

**MUNICIPIO DE RINCÓN
AUDITORÍA 2014-2015**

30 DE JUNIO DE 2015



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN**

***BASIC FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITORS' REPORT
(WITH ADDITIONAL REPORTS REQUIRED
UNDER OMB CIRCULAR A-133)***

***AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015***



***Hon. Carlos López-Bonilla
Mayor***

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN**

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

**Honorable Mayor and Member of the
Municipal Legislature
Rincón, Puerto Rico**

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Commonwealth Legislature Resolutions	Unmodified
Debt Service Fund	Unmodified
USHUD-Community Development Block Grant Program	Unmodified
GDB \$690,000 Line of Credit Ojo de Agua Hotel	Unmodified
PR Department of Transportation (DTOP)	Unmodified
Capital Projects – Bonds and Notes Issuance Fund	Unmodified
Other Governmental Funds	Unmodified

Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pension Plan

The net pension liability and deferred outflows/inflows of resources in governmental activities of the government-wide Statement of Net position, and pension expense for the current period change in that liability in governmental activities of the government-wide Statement of Activities were derived from the application of the proportional share included in the unaudited financial statements, notes and required supplementary information of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, cost-sharing multiple-employer pension plan. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, and pension expenses of the governmental activities and the information disclosed in the notes of the pension plan. Consequently, we were unable to determine whether any adjustments to these amounts and disclosures were necessary. The net pension liability and deferred outflows/inflows of resources represent 68 percent, 100 and 32 percent, of the total liabilities, deferred outflows/inflows of resources, respectively, as of June 30, 2015, while pension expense represents 11 percent of total expenses for the fiscal year then ended.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pension Plan" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the **Municipality**, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Rincón, Puerto Rico, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Newly Adopted Standards

As discussed in Note A-20 to the financial statements, the **Municipality** adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions -an amendment of GASB No. 27, and GASB No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – and amendment of GASB Statement No. 68*, during fiscal year 2015. Our opinions are not modified with respect to this matter.

Restatement of Prior Year Financial Statements

As discussed in Note R to the financial statements, the 2014 financial statements have been restated for the implementation of GASB Statements Nos 68 and 71. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and employees' retirement systems information on pages 5-17, pages 65-67 and 68-69 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 it 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. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to **Municipality**, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The financial data schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and also is not a required part of the basic financial statements. The financial data schedule and the schedule of expenditures of federal awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial data schedule and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2016, on our consideration of the Municipality of Rincón, Puerto Rico'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 Municipality of Rincón, Puerto Rico's internal control over financial reporting and compliance.

Roman Toro & Co.

ROMAN TORO & CO., CPA, CSP
LICENSE # 35 - IN FORCE

Yauco, Puerto Rico
March 15, 2016

Stamp #E204740 was affixed to
the original report



MANAGEMENT'S DISCUSSION AND ANALYSIS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

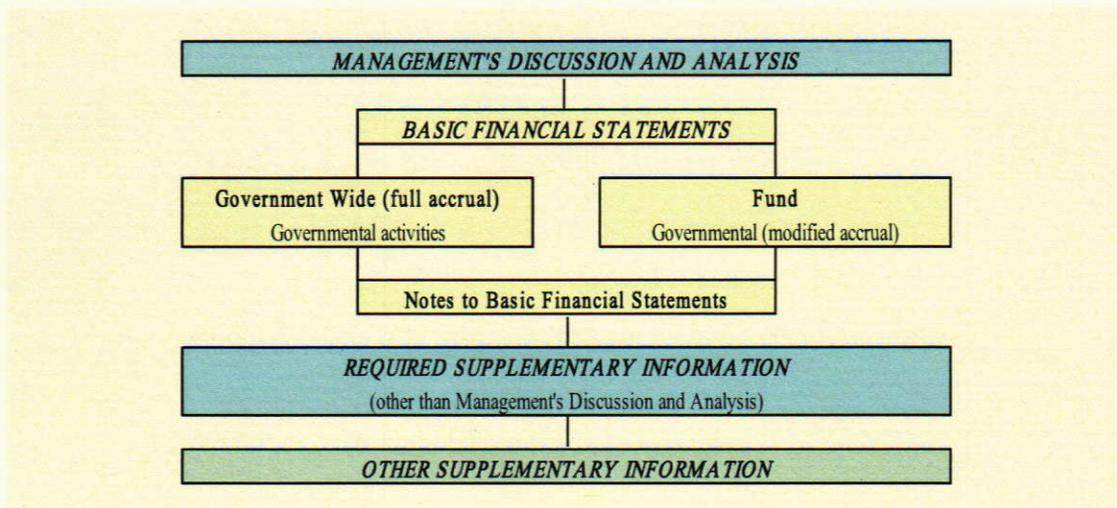
As management of the Municipality of Rincón we offer to the readers of the financial statements this narrative review and analysis of the Municipality's financial activities for the year ended June 30, 2015. This section should be read in conjunction with the basic financial statements to obtain a better understanding of the financial position and the results of operations of the Municipality. Those basic financial statements follows this narrative.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the Municipality, exceeded its liabilities and deferred inflows at the close of fiscal year 2015 by \$16,174,820 (net position). Of this amount, \$(18,769,212) represents the unrestricted net deficit. This unrestricted deficit is the result of the implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27" and GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date".
- Government-wide revenues decreased 16% and expenses decreased 2% when compared with prior fiscal year 2014. As a result, the net position decreased \$2,217,476 or 73% with respect of prior year change in net position.
- A negative net change in fund balances of the Municipality's governmental funds of \$150,300 for the current fiscal year 2015 resulted in reported ending fund balances of \$10,135,078. Approximately 44% of the total fund balances is unrestricted (committed, assigned or unassigned).
- For the fiscal year 2015, the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$1,125,922 increasing its fund balance to \$5,174,244. The positive net change of \$1,125,922 represents a net decrease of 8% when compared with the 2014 net change in fund balance. The unassigned fund balance amounts to \$1,808,968, an increase of \$58,710 as compared to 2014.
- The investment in capital assets as of June 30, 2015 was \$36,941,081 (net of depreciation).
- Long-term debt increased to \$34,023,584 as a result of the implementation of GASB Statements No. 68 and 71.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$180,001.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial report comprises four components: (1) management's discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) other supplementary information.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Basic Financial Statements

- ***Government-Wide Financial Statements***

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the *statement of net position* presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in the Municipality's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement – the *statement of activities* – presents information showing how the net position changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

The government-wide statements report as governmental activities the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, housing, welfare, and community development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well as by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of spendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that comply with a minimum criterion that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users. Special revenue and capital project funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

- *Notes to financial statements*

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund, the schedule of Municipality's proportionate share of net pension liability and the schedule of Municipality's contributions.

Supplementary information

The supplementary information also includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

The following table presents a summary of the Statements of Net Position as of June 30, 2015 and 2014:

TABLE 1

<i>Summary Statement of Net Position As of June 30,</i>		
	Governmental Activities	
	2015	2014
Assets		
Current and other assets	\$ 13,734,193	\$ 14,027,019
Capital assets	36,941,081	36,250,275
Total assets	\$ 50,675,274	\$ 50,277,294
Deferred outflows of resources	1,365,696	-
Liabilities		
Current and other liabilities	1,269,504	1,651,424
Long-term liabilities	34,023,584	11,921,480
Total liabilities	35,293,088	13,572,904
Deferred inflows of resources	573,062	-
Net Position		
Net investment in capital assets	31,049,075	30,373,665
Restricted	3,894,957	4,866,278
Unrestricted (deficit)	(18,769,212)	1,464,447
Total net position	\$ 16,174,820	\$ 36,704,390

The Municipality implemented GASB Statement No. 68 effective July 1, 2014. The 2014 amounts presented have not been restated to reflect the implementation of GASB 68.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) serve as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. At June 30, 2015, assets exceeded its liabilities by \$16,174,820.

Of this amount, \$(18,769,212) represents an unrestricted net deficit position. This unrestricted deficit is the part of net position that can be used to finance day-to-day governmental operations without constraints established by debt covenants, enabling legislation or other legal requirements. This deficit primarily arises from the implementation of **GASB Statement No. 68** "Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27" and **GASB Statement No. 71** "Pension Transition for Contributions Made Subsequent to the Measurement Date". In order to implement the Statements, a prior period adjustment was made to the Municipality's July 1, 2014 net position. This prior period adjustment and other miscellaneous adjustment decreased the net position by \$21,336,378 from \$36,704,390 to \$15,368,012. Restricted net position represents resources that are subject to external restrictions on how they may be used.

The largest portion of the Municipality's net position reflects its investment in capital assets (land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Changes in net position

The Municipality reported a positive change in net position of \$806,808, a decrease of \$2,217,476 or 73% with respect to the net change in net position reported in fiscal period 2014. This decrease resulted from the net effect of a decrease of 16% in revenues and a minor net decrease of 2% in expenses. The following table summarizes the changes in net position for the fiscal years ended 2015 and 2014:

TABLE 2

<i>Summary of Changes in Net Position As of June 30,</i>		
	Governmental Activities	
	2015	2014
Program revenues:		
Fees, fines and charges for services	\$ 1,711,441	\$ 3,263,296
Operating grants and contributions	669,448	1,314,078
Capital grants and contributions	776,763	1,387,373
General revenues:		
Property taxes	2,357,412	2,696,732
Municipal license taxes	543,914	585,671
Sales and use taxes	1,835,496	1,351,628
Grants and contributions not restricted to specific programs	4,857,872	4,710,157
Interest	182,416	120,675
Other	140,255	132,076
Total revenues	13,075,017	15,561,686
Expenses:		
General government	5,264,541	5,979,362
Public works and sanitation	3,439,530	3,204,923
Public safety	923,451	927,685
Culture and recreation	1,053,472	924,146
Health	320,817	320,817
Housing, welfare and community development	850,923	789,488
Education	7,351	3,773
Interest on long term debt	408,124	387,208
Total expenses	12,268,209	12,537,402
Change in net position	806,808	3,024,284
Net position at beginning of year, as previously reported	36,704,390	33,680,106
Prior period adjustment	(21,336,378)	-
Net position at beginning of year, as restated	15,368,012	-
Net position at end of year	\$ 16,174,820	\$ 36,704,390

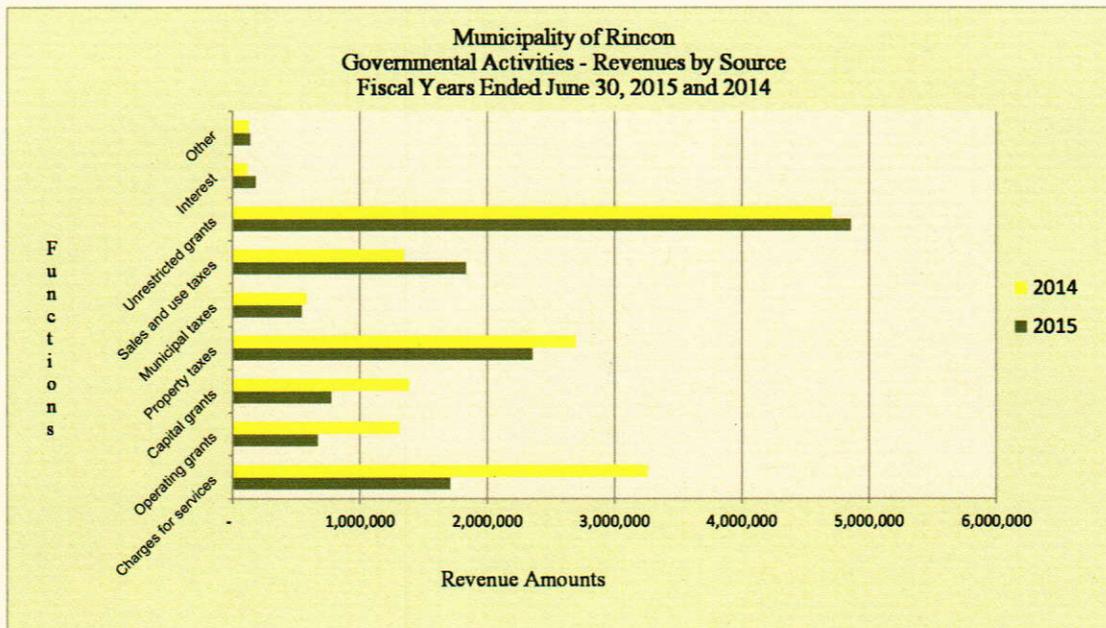
The Municipality implemented GASB Statement No. 68 effective July 1, 2014. The 2014 amounts presented have not been restated to reflect the implementation of GASB 68.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

As shown in **TABLE 2** the four major sources of revenues of the Municipality in fiscal year 2015 are: unrestricted grants and contributions (37%), property taxes (18%), sales and use taxes (14%) and fees, fines and charges for services (13%). Revenues decreased 16% with respect to prior fiscal year. The most significant revenue decreases occurred in:

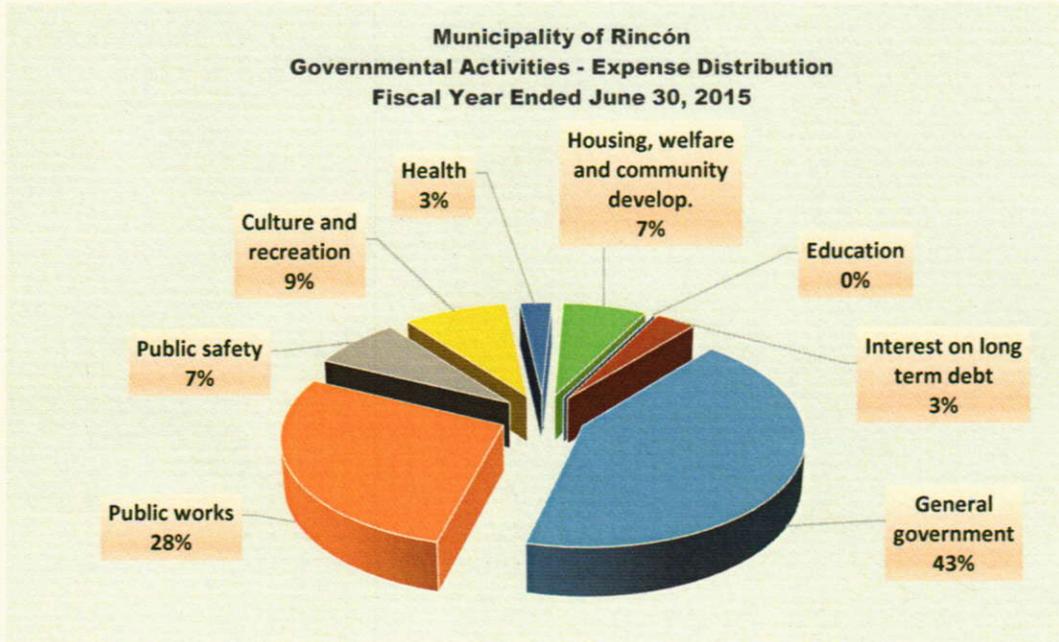
- Fees, fines and charges for services (48%) - this decrease occurred mainly due to a reduction in the compensation in lieu of tax ("CELI") from PREPA reported in 2015. The compensation in lieu of tax ("CELI") reported as government-wide revenue of \$1,079,485 represents an estimated amount since PREPA has not reported to the Municipality the actual CELI to be reported in fiscal year 2014-2015. For 2014 year the actual CELI reported as government-wide revenue amounted to \$2,514,667.
- Operating grants (49%) - this decrease is due to the collection in fiscal year 2014 of \$301,000 of funds from Rural Development Corporation (CDR), \$250,000 of funds for improvements of urban streets and \$37,500 of funds from DTOP. These grants were not recurrent and therefore causing a difference with respect to fiscal year 2015.
- Capital grants (44%) – a decrease in CDBG and FTA grants revenues are the main causes of the decrease in capital grants revenues. CDBG revenues are consistent with a decrease in CDBG expenses. In 2014 a non-recurrent FTA grant revenue of \$327,326 was used to finance the acquisition of two trolleys.

The following **Figure 1** illustrates the revenue comparison between 2015 and 2014:

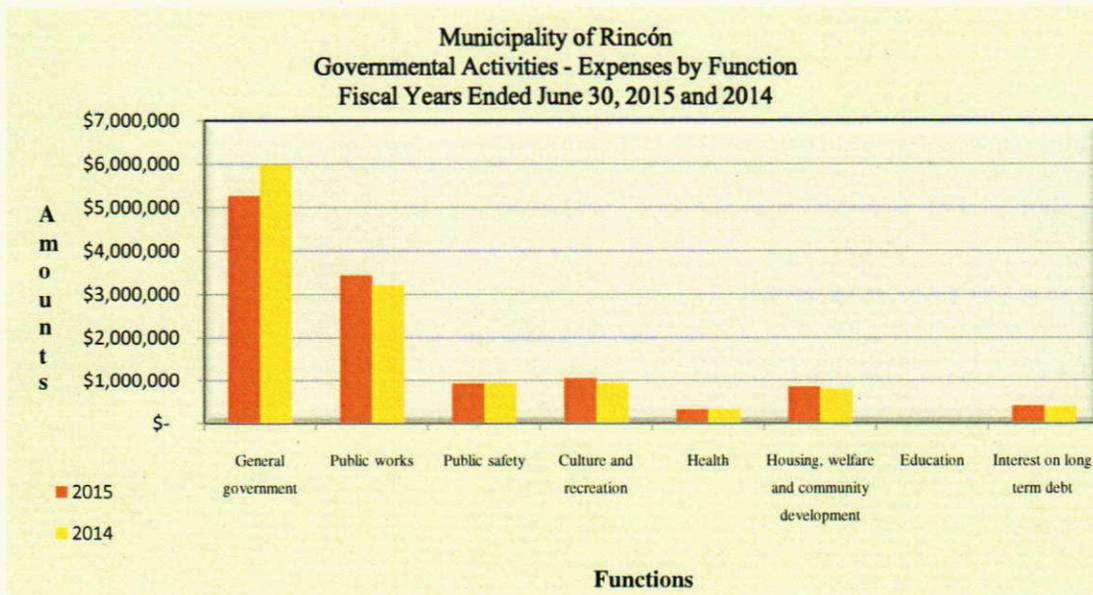


The Municipality's expenses cover a range of services. The largest expenses are general government with 43% and public works and sanitation with 28%, as illustrated in **Figure 2**:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**



Total expenses decreased 2% (net) when compared with fiscal year 2014. The main reason of this is a decrease of 12% in general government expenses. As discussed earlier, the Municipality reported as general government expense an estimated energy power expense of \$1,079,485 since PREPA has not reported to the Municipality the actual energy power expense to be reported in fiscal year 2014-2015. For 2014 year the actual energy power expense amounted to \$2,514,667. The following **Figure 3** illustrates the expenses comparison between 2015 and 2014:



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. The following table discloses 2015 and 2014 expenses net of program revenue and the general revenues available to finance remaining costs:

TABLE 3

<i>Expenses Net of Program Revenues As of June 30, 2015</i>		
Net expenses	2015	2014
General government	\$ (3,274,023)	\$ (2,487,066)
Public works and sanitation	(2,831,669)	(2,489,856)
Public safety	(923,451)	(888,609)
Culture and recreation	(1,001,322)	(868,416)
Health	(320,817)	(320,817)
Housing, welfare and community development	(343,800)	873,090
Education	(7,351)	(3,773)
Interest on long term debt	(408,124)	(387,208)
Total expenses, net of program revenues	<u>(9,110,557)</u>	<u>(6,572,655)</u>
General revenues		
Taxes	4,736,822	4,634,031
Grants and contributions not restricted to specific programs	4,857,872	4,710,157
Interest and other	322,671	252,751
Total general revenues	<u>9,917,365</u>	<u>9,596,939</u>
Change in net position	<u>\$ 806,808</u>	<u>\$ 3,024,284</u>

The Municipality implemented GASB Statement No. 68 effective July 1, 2014. The 2014 amounts presented have not been restated to reflect the implementation of GASB 68.

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$1,711,441) and other governments and organizations that subsidized certain programs with grants and contributions (\$1,446,211). The net cost of services \$(9,110,557) was covered by other general revenues including taxes and other grants and contributions not restricted for specific programs.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

For the fiscal year ended June 30, 2015, the governmental funds reported a negative change in fund balances of \$150,300 with ending fund balances of \$10,035,078, a net decrease of 3% in comparison with the prior year. Forty-four percent (44%) of the total fund balances or \$4,460,236 constitutes unrestricted fund balance, of which \$1,283,879 (or 13%) are unassigned funds. The remainder of the fund balances is restricted to indicate that it is not available for new spending. Following is a summary of the financial analysis of the Municipality's major funds:

- ***General Fund***

The general fund is the operating fund of the Municipality. The fund balance of the general fund of \$5,174,244 represents approximately 52% of total ending fund balances. Of the total fund balance 4% or \$188,919 is restricted mainly to finance the maintenance of the sunset village facilities as required by grant agreement; 22% of the fund balance is committed and 39% is assigned for public works, sanitation and general government purposes. The remainder of the unrestricted fund balance of \$1,808,968 is unassigned fund balance, which represents 35% of the total fund balance of the general fund. Unassigned fund balance increased \$58,710 with respect to the prior year.

During the fiscal year the net change fund balance of the general fund amounts to \$1,225,922, a net decrease of 8% when compared with the 2014 net change in fund balance. The Municipality suffers a decrease in general fund operational revenues of \$703,495 or 6%; expenditures remain steady with an increase of 1% in operational expenditures. The decrease in revenues was caused mainly from:

- a) Property taxes (31%) - the Municipality reported less "non-exonerated" property taxes and reported less revenue for a property tax amnesty with respect from prior fiscal year.
- b) Fees, fines and charges for services (22%) - this decrease occurred mainly due to a reduction in the compensation in lieu of tax ("CELI") from PREPA reported in 2015 as reported earlier. The compensation in lieu of tax ("CELI") reported as revenue represents an estimated amount since PREPA has not reported to the Municipality the actual CELI to be reported in fiscal year 2014-2015.

These decreases were counterbalanced by a non-recurrent revenue for unidentified municipal sales tax for previous years (Act No. 139 of 2013) and by other financing source of \$771,271 representing a transfer from the SUT Municipal Redemption Fund for funds in excess of debt service requirements. This excess of funds may be transferred to the Municipality's general fund as authorized by Municipal regulations.

- ***Commonwealth Legislature Fund***

This fund report revenue sources from grants provided by the Commonwealth's Legislature restricted for specific purposes. During the 2015 the fund balance increased by \$5,410. The fund received additional grants of \$161,839. Amounts were expended in public works and capital outlays.

- ***Debt Service Fund***

The debt service fund reported a decrease in fund balance of \$655,345 or 31%. This decrease, in addition to a prior period adjustment of \$52,509 bring the year-end fund balance to \$1,592,282. Debt service fund balance represents 16% of total fund balances. This decrease results from a transfer of \$771,271 from the SUT Municipal Redemption Fund to the general fund for funds in excess of debt service requirements, as discussed above.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

- ***USHUD – Community Development Block Grant Program Fund (“CDBG”)***

With respect to previous year, the CDBG fund operation presents a significant decrease in capital outlays expenditures. Of the major projects financed with CDBG funds, one of them the Municipality was completed in 2015 (“Proyecto Parque Urbano, Fase I”). Fund balance increased by \$63,536 for unavailable revenues in 2014 recorded as revenues in 2015 year. Fund balance presents a deficit as liabilities and deferred inflows of resources exceed assets for unavailable revenues recorded.

- ***Rural Development Corporation (CDR) – Marine Facilities***

This fund has no operation during 2015. Management decided to record the fund as a major fund since this is considered a major project which construction process will began in future fiscal periods.

- ***GDB \$690,000 Line of Credit – Ojo de Agua Hotel Fund***

There was no significant change during the 2015 year. Management decided to record the fund as a major fund for the importance of this project to the Municipality’s operations in the future.

- ***P.R. Department of Transportation Fund (“DTOP”)***

There was no significant change during the 2015 year. Management decided to record the fund as a major fund for the importance of this project to the Municipality’s operations in the future.

- ***Capital Projects – Bonds and Notes Issuance Fund***

During the year the fund incurred \$533,599 in expenditures of which \$527,930 were incurred for capital projects financed with \$2,310,000 and \$1,428,000 bond issuance funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1991, as amended. In order to demonstrate compliance with budget regulations and accounting standards, the Municipality presents a budgetary comparison schedule of the general fund as a required supplementary information. This schedule is prepared under a budgetary basis of accounting, which is different from accounting principles generally accepted in the United States of America (“US GAAP”). Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The general fund original budget for the fiscal year 2014-2015 presented a decrease of \$70,000 with respect to the prior year original budget. Actual revenues exceeded revised budgeted revenues by \$9,254 (net). The Municipality also reported a positive variance of \$159,331 between revised budgeted appropriations and actual expenditures. Actual revenues exceeded actual expenditures by \$180,001.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$36,941,081 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of 2% over the prior year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

TABLE 4

	<i>Capital Assets, net As of June 30,</i>	
	Governmental Activities	
	2015	2014
Non-depreciable assets:		
Land	\$ 7,960,293	\$ 7,960,293
Construction in progress	2,567,458	2,121,259
Depreciable assets (net):		
Land improvements	618,915	666,390
Buildings and buildings improvements	17,691,908	17,558,898
Infrastructure	6,234,648	5,793,929
Vehicles, machinery and equipment	1,867,859	2,149,506
Total	\$ 36,941,081	\$ 36,250,275

The Municipality's major capital projects that were still in construction and the related construction in progress cost as of June 30, 2015 are as follows:

- Construction of Recreational Facilities on Barrero Ward – \$738,517
- Urban Park Project, Phase II - \$581,225
- Rio Grande Residential Development - \$281,061
- Sidewalks and Curbs Construction, Road No.115 - \$176,428

Two major projects "Urban Park Project Phase I" for a total cost of \$511,475 and "Remodeling of P.R. Road No.115 Entrance" for a total cost of \$280,162 were finished and transferred from construction in progress to building and infrastructure functions. Equipment for a total amount of \$106,839 was placed in use during 2015.

The Municipality's fiscal year 2014-2015 capital budget calls for a significant amount of projects. These projects will be financed through Federal and Commonwealth grants, funds from the Commonwealth Legislature and/or Municipal funds.

More detailed information about the Municipality's capital assets is presented in Note E to the financial statements.

Long-term debt

At year-end, the Municipality had \$8,404,000 in general and special bonds and notes. The Municipality did not issue long-term debt during 2014-2015 year. Long-term debt increased 185% to \$34,023,584 with respect to 2014. This significant change primarily arises from the implementation of ***GASB Statement No. 68*** "Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27" and ***GASB Statement No. 71*** "Pension Transition for Contributions Made Subsequent to the Measurement Date". The Municipality, as a cost-sharing employer reported its proportionate share of the pension plan's resulting net pension liability from Statement No. 67 based on the their respective individual proportion to the collective net pension liability of all the governments participating. The following is a summary of the Municipality's outstanding debt as of June 30, 2015 and 2014:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

TABLE 5

<i>Outstanding Long-term Debt</i>			
<i>Fiscal years ended June 30,</i>			
	Governmental Activities		
	2015	2014	
General and special obligation bonds and notes	\$ 8,404,000	\$ 8,959,000	
Note payable to CRIM – Law No. 42	366,174	378,083	
Note payable to CRIM – financing of delinquent accounts	34,996	37,054	
Compensated absences	1,270,321	1,312,832	
Christmas bonus payable	145,111	142,950	
Payable to CRIM - property tax advances	49,129	18,603	
Payable to PREPA	375,935	929,491	
Judgments and claims	28,000	16,000	
GDB line of credit – “Ojo de Agua Hotel”	127,467	127,467	
Net pension liability	23,222,451	-	
Total	\$ 34,023,584	\$ 11,921,480	

The 2014 amounts presented have not been restated to reflect the implementation of GASB 68.

More detailed information about the Municipality's long-term liabilities is presented in Note F of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's officials considered certain factors when establishing the fiscal year's 2015-2016 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth or decline in population, personal income; housing statistics and unemployment rates. The Municipality's unemployment rate at the end of fiscal year 2015 stands at 16.5%, and the Commonwealth rate stands at 12.4%.

For year 2015-2016 the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are \$9,130,000 representing an increase of approximately 3% with respect to prior year estimates. If these estimates are realized, the Municipality's budgetary general fund balance is expected to increase modestly by the close of the 2015-2016 fiscal year. In addition to the general fund estimated budget the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works.

The Commonwealth of Puerto Rico is facing a severe financial crisis. Credit rating agencies have been downgrading its rating on the Commonwealth debt obligations based on among other problems in years of deficit financing, pension underfunding, budgetary imbalance and a prolonged economic recession. These downgrades may have a significant impact in the economic environment of Puerto Rico and the Commonwealth Government, its instrumentalities and the municipalities in critical areas such as access to markets and liquidity for the current fiscal year and thereafter. Therefore, the participation of the Municipality in the bond market has been delayed waiting for the credit rating of the Commonwealth and its instrumentalities to improve or for more favorable market conditions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have any questions about this report or need any additional information contact the Finance Department at the Municipality of Rincón, PO Box 97, Rincón, P.R. 00677.

BASIC FINANCIAL STATEMENTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
STATEMENT OF NET POSITION
JUNE 30, 2015**

	Governmental Activities
<u>ASSETS</u>	
Cash and cash equivalents	\$ 5,485,941
Receivables, net:	
Municipal license taxes	4,158
Due from:	
Commonwealth Government	1,384,677
Federal Government	263,664
Restricted assets:	
Cash and cash equivalents	1,871,939
Cash with fiscal agent	4,610,155
Other assets	113,659
Capital assets:	
Land and construction in progress	10,527,751
Other capital assets, net	26,413,330
Total capital assets, net	36,941,081
Total assets	50,675,274
 <u>DEFERRED OUTFLOW OF RESOURCES</u>	
Deferred outflows related to pension	1,365,696
Total Deferred outflows of Resources	1,365,696
 <u>LIABILITIES</u>	
Accounts payable and accrued liabilities	924,798
Interest payable	185,717
Due to:	
Commonwealth Government	147,309
Unearned revenues:	
Federal grants received in advance	11,680
Long-term liabilities:	
Due within one year	1,318,572
Due in more than one year	32,705,012
Total liabilities	35,293,088
 <u>DEFERRED INFLOW OF RESOURCES</u>	
Municipal License taxes received in advance	387,226
Deferred inflows related to pension	185,836
Total Deferred Inflows of Resources	573,062
 <u>NET POSITION</u>	
Net investment in capital assets	31,049,075
Restricted for:	
Debt service	2,111,512
Capital Projects	1,428,511
Other specified purposes	354,934
Unrestricted (deficit)	(18,769,212)
Total net position	\$ 16,174,820

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2015**

Functions	Program Revenues			Net (expenses) and revenues and changes in net position
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General government	\$ 5,264,541	\$ 1,709,791	\$ 170,291	\$ (3,274,023)
Public works and sanitation	3,439,530	-	49,045	(2,831,669)
Public safety	923,451	-	-	(923,451)
Culture and recreation	1,053,472	1,650	50,500	(1,001,322)
Health	320,817	-	-	(320,817)
Welfare and community development	850,923	-	399,612	(343,800)
Education	7,351	-	-	(7,351)
Interest on long-term debt	408,124	-	-	(408,124)
Total	\$ 12,268,209	\$ 1,711,441	\$ 669,448	\$ (9,110,557)

General revenues :

Taxes:	
Property taxes	2,357,412
Municipal license taxes	543,914
Sales and use taxes	1,835,496
Grants contributions not restricted to specific programs	4,857,872
Interest	182,416
Other	140,255
Total general revenues:	9,917,365

Change in net position

Net position at beginning of fiscal year, as restated	806,808
Net position at end of fiscal year	15,368,012
	\$ 16,174,820

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	Major Funds										
	General	Commonwealth Legislature Resolutions	Debt Service	US HUD - Community Development Block Grant Program	Rural Development Corporation (CDR) - Marine Facilities	GDB \$690,000 Line of Credit - Ojo de Agua Hotel	PR Department of Transportation (DTOP)	Capital Projects - Bonds and Notes Issuance Fund	Other Governmental Funds	Total Governmental Funds	
ASSETS											
Cash and cash equivalents	\$ 5,485,941	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,485,941	
Receivables, net:											
Municipal license taxes	4,158	-	-	-	-	-	-	-	-	4,158	
Due from:											
Commonwealth Government	825,168	58,403	164,249	-	-	-	198,663	-	138,194	1,384,677	
Federal Government	-	-	-	96,541	-	-	-	-	167,123	263,664	
Other funds	417,201	-	71	-	-	-	-	15,431	-	432,703	
Restricted assets:											
Cash and cash equivalents	-	720,811	-	2	820,468	-	15,907	-	379,772	1,936,960	
Cash with fiscal agent	-	-	2,279,276	-	-	-	-	2,265,858	-	4,545,134	
Other assets	113,659	-	-	-	-	-	-	-	-	113,659	
Total assets	\$ 6,846,127	\$ 779,214	\$ 2,443,596	\$ 96,543	\$ 820,468	\$ -	\$ 214,570	\$ 2,281,289	\$ 685,089	\$ 14,166,896	
LIABILITIES											
Accounts payable and accrued liabilities	\$ 294,393	\$ 92,839	\$ -	\$ 67,502	\$ -	\$ 5,197	\$ 177,128	\$ 167,272	\$ 120,467	\$ 924,798	
Matured bonds and interest payable	-	-	700,164	-	-	-	-	-	-	700,164	
Due to:											
Commonwealth Government	147,309	-	-	29,040	-	9,214	23,392	-	355,555	147,309	
Other funds	15,502	-	-	-	-	-	-	-	-	15,502	
Unearned revenues:											
Federal grants received in advance	-	-	-	-	-	-	-	-	-	-	
Total liabilities	\$ 457,204	\$ 92,839	\$ 700,164	\$ 96,542	\$ -	\$ 14,411	\$ 200,520	\$ 167,272	\$ 487,702	\$ 2,216,654	
DEFERRED INFLOWS OF RESOURCES											
Municipal License taxes received in advance	387,226	-	-	-	-	-	-	-	-	387,226	
Unavailable revenues:											
Commonwealth Government	825,164	58,403	151,150	-	-	-	198,663	-	118,896	1,352,276	
Federal Grants	-	-	-	61,863	-	-	-	-	111,510	173,373	
Others	2,289	-	-	-	-	-	-	-	-	2,289	
Total deferred inflow of resources	\$ 1,214,679	\$ 58,403	\$ 151,150	\$ 61,863	\$ -	\$ -	\$ 198,663	\$ -	\$ 230,406	\$ 1,915,164	
FUND BALANCES (DEFICIT):											
Restricted	188,919	627,972	1,592,282	-	820,468	-	14,050	2,114,017	217,134	5,574,842	
Committed	1,157,571	-	-	-	-	-	-	-	-	1,157,571	
Assigned	2,018,786	-	-	-	-	-	-	-	-	2,018,786	
Unassigned	1,808,968	-	-	(61,862)	-	(14,411)	(198,663)	(250,153)	(250,153)	1,283,879	
Total fund balances (deficit)	\$ 5,174,244	\$ 627,972	\$ 1,592,282	\$ (61,862)	\$ 820,468	\$ (14,411)	\$ (184,613)	\$ 2,114,017	\$ (33,019)	\$ 10,035,078	
Total liabilities, deferred inflows of resources and fund balances (deficit)	\$ 6,846,127	\$ 779,214	\$ 2,443,596	\$ 96,543	\$ 820,468	\$ -	\$ 214,570	\$ 2,281,289	\$ 685,089	\$ 14,166,896	

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total fund balances - governmental funds **\$ 10,035,078**

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet 36,941,081

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

Due from Commonwealth Government:			
Christmas bonus reimbursement	\$	36,274	
Property taxes- General Fund		280,348	
Sales and use tax- General Fund		124,607	
P.R. Electric Power Authority (PREPA)		375,935	
Property taxes- Debt Service Fund		146,367	
Sales and use tax- Debt Service Fund		4,783	
P.R. Department of Transportation (DTOP)		198,663	
P.R. Department of Labor - Law No. 52		77,824	
OCAM - Public Order Code		39,076	
P.R. Office of the Ombudsman for the Elderly		1,996	
Other		66,403	1,352,276
Due from Federal Government:			
Federal grant - CDBG		61,863	
Federal grant - Child Care Program		44,925	
Federal grant - Child Care Food Program		7,706	
Federal grant - FEMA Irene Storm		38,900	
Federal grant - P.R. Office of the Ombudsman for the Elderly		19,979	173,373
Other: municipal license taxes			2,289

Deferred outflows of resources related to pensions not recognized in the governmental funds balance sheet: 1,365,696

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

General obligation bonds and notes	(7,879,250)	
Note payable to CRIM-Law No. 42	(366,174)	
Note payable to CRIM-financing of delinquent accounts	(34,996)	
Payable to CRIM - property tax advances	(49,129)	
Compensated absences	(1,270,321)	
Christmas Bonus	(145,111)	
Judgments and claims-legal cases	(28,000)	
Debt payable to P.R. Electric Power Authority	(375,935)	
Line of Credit (including applicable accrued interest)	(127,467)	
Net pension liability	(23,222,451)	
Interest	(10,303)	(33,509,137)

Deferred inflows of resources related to pensions not recognized in the governmental funds balance sheet: (185,836)

Net position of governmental activities: **\$ 16,174,820**

The accompanying notes are an integral part of these statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT) -
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2015

Major Funds											
	General	Commonwealth Legislature Resolutions	Debt Service	USHUD - Community Development Block Grant Program	Rural Development Corporation (CDR) - Marine Facilities	GDB \$690,000 Line of Credit - Ojo de Agua Hotel	PR Department of Transportation (DTOP)	Capital Projects - Bonds and Notes Issuance Fund	Other Governmental Funds	Total Governmental Funds	
Revenues:											
Taxes:											
Property taxes	\$ 1,298,079		\$ 695,859			\$ -				\$ 1,993,938	
Municipal license taxes	542,668									542,668	
Sales and use taxes	1,354,170		351,936							1,706,106	
Intergovernmental:											
Commonwealth Government	4,893,069	161,839					22,500		198,751	5,276,159	
Federal Government	2,264,407			670,556					414,967	1,085,523	
Fees, fines and charges for services	40,261		1,874							2,264,407	
Interest	132,845							139,078	1,203	182,416	
Other										132,845	
Total revenues	10,525,499	161,839	1,049,669	670,556			22,500	139,078	614,921	13,184,062	
Expenditures:											
Current:											
General government	4,997,823			110,436					241,249	5,349,508	
Public works and sanitation	2,572,728	10,263		65,568			39,030	347	24,510	2,712,446	
Public Safety	771,790									771,790	
Culture and recreation	509,152			50,500						559,652	
Health	320,367									320,367	
Welfare and community development	233,730			107,511					401,106	742,347	
Education										5,322	
Capital outlays	678,140	146,166		273,005		14,411	5,005	527,930	252,983	1,897,640	
Debt Service:										589,750	
Principal										385,540	
Interest											
Total expenditures	10,083,730	156,429	975,290	607,020		14,411	44,035	533,599	919,848	13,334,362	
Excess (deficiency) of revenues over expenditures	441,769	5,410	74,379	63,536		(14,411)	(21,535)	(394,521)	(304,927)	(150,300)	
Other financing sources (uses):											
Transfers in	913,164		43,159						85,852	1,042,175	
Transfers (out)	(129,011)		(772,883)					(139,078)	(1,203)	(1,042,175)	
Total other financing resources (uses)	784,153		(729,724)					(139,078)	84,649		
Net change in fund balances (deficit)	1,225,922	5,410	(655,345)	63,536		(14,411)	(21,535)	(533,599)	(220,278)	(150,300)	
Fund balances (deficit) at beginning of fiscal year, as restated	3,948,322	622,562	2,247,627	(125,398)	820,468		(163,078)	2,647,616	187,259	10,185,378	
Fund balances (deficit) at end of fiscal year	\$ 5,174,244	\$ 627,972	\$ 1,592,282	\$ (61,862)	\$ 820,468	\$ (14,411)	\$ (184,613)	\$ 2,114,017	\$ (33,019)	\$ 10,035,078	

The accompanying notes are an integral part of this statement.

Net change in fund balances (deficit)
Fund balances (deficit) at beginning of fiscal year, as restated
Fund balances (deficit) at end of fiscal year

Handwritten signatures and initials:
O'Donnell
O'Donnell

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2015**

Net change in fund balances (deficit) - total governmental funds: \$ (150,300)

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

Governmental funds reports capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for capital assets	\$ 1,897,640	
Less: current year depreciation	<u>(1,199,582)</u>	698,058

Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of the disposed asset:

(7,252)

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

Christmas bonus reimbursement	36,274	
Property taxes- General Fund	280,348	
Property taxes- Debt Service Fund	146,367	
Sales and use tax- General Fund	124,607	
Sales and use tax- Debt Service Fund	4,783	
P.R. Department of Labor - Law No.52	55,206	
Federal grant - P.R. Office for Ombudsman Administration (OAP)	21,975	
Federal grant - Child Care Food Program	7,706	
Federal grant - CDBG	61,863	
Other	<u>77,446</u>	816,575

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

Christmas bonus reimbursement-prior year	71,471	
Property taxes-General Fund	1,043	
Sales and use tax-General Fund	63,241	
P.R. Electric Power Authority (PREPA)	553,556	
P.R. Department of Labor - Law No. 52	98,078	
Federal grant - Child Care Program	22,269	
Federal grant - Child Care Food Program	490	
Federal grant - CDBG	125,398	
Federal grant - P.R. Office for Ombudsman Administration (OAP)	<u>12,659</u>	(948,205)

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

Matured bonds principal payments (net change)	34,750	
Municipality's contributions to the pension plan in current year	<u>573,052</u>	607,802

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

General obligation bonds and notes	555,000	
Other long term liabilities	<u>855,162</u>	1,410,162

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 the governmental funds:

Compensated absences	(102,178)	
Judgments and claims-legal cases	(12,000)	
Payable to CRIM - 2014 property tax advances	(30,526)	
Christmas bonus	(145,111)	
Pension	(1,331,774)	
Accrued interest (net change)	<u>1,557</u>	(1,620,032)

Change in net position of governmental activities: \$ 806,808

The accompanying notes are an integral part of these statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Rincón was founded in 1770. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of twelve (12) members of the Municipal Legislature. The Municipality engages in comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

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

1. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Municipality of Rincón (the primary government) and component units, if any. A primary government is any state government or general purpose local government (a municipality). All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of a primary government. If an organization is part of a primary government, its financial data should be included with the financial data of the primary government. Component units are legally separate organizations for which the primary government is financially accountable or organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A component unit may be a governmental organization, a nonprofit corporation or a for-profit corporation.

The following circumstances set forth a primary government's financial accountability for a legally separate organization:

- a. The primary government appoints a voting majority of the entity's governing body, and either:
 - A financial benefit/ burden exist between the primary government and the entity or
 - The primary government can impose its will on the entity.
- b. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.

In addition, as described above, it would be necessary to include other organizations as a component unit if the exclusion would cause the primary government's financial statements to be misleading or incomplete. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be *discretely* presented as component units:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

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- c. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Professional judgment should be applied in determining whether the relationship between a primary government and other organizations for which the primary government is not financially accountable and that do not meet the above criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

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

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

Otherwise, the component unit should be presented as *discrete*. Those component units does not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government ("*discretely component units*"). As discussed earlier, other legally separate, tax-exempt organizations that meet the applicable criteria should be included as *discretely component units*.

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

2. Basis of presentation, measurement focus and basis of accounting

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

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Management's Discussion and Analysis

This consists of a narrative that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.

Basic financial statements

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues:

Government-wide statements

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

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

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes are considered imposed non-exchange transactions since they are based on assessments imposed by the Municipality that are not based on exchange transactions. Property taxes are recognized as revenues in the year for which the taxes are levied. Municipal license taxes and sales and use taxes are considered derived tax revenues since they are taxes imposed by the Municipality based on exchange transactions. Municipal license taxes are recorded as revenues in the period the Municipality has an enforceable legal claim and time requirements are met; sales and use taxes are recognized as revenues in the period when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

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The Municipality reports a liability for unearned revenues in the government-wide statements. Unearned revenues arise when (1) resources received in advance of an exchange transaction, (2) resources received in advance in relation to a derived tax revenue, and (3) resources received in advance related to voluntary non-exchange transactions when eligibility requirements other than time requirements have not been met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, after related exchange transactions occur or applicable eligibility requirements are met the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

Fund statements

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users (for Commonwealth Legislature Resolutions, USHUD - Community Development Block Grant Program (CDBG), Rural Development Corporation (CDR) - Marine Facilities, GDB \$690,000 Line of Credit - "Ojo de Agua" Hotel and P.R. Department of Transportation - DTOP Funds).

The Municipality reports the following major governmental funds:

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

Commonwealth Legislature Resolutions Fund: This fund is used to account for and report revenue sources from grants provided by the Commonwealth's Legislature that are restricted, committed, or assigned for specific purposes which include, among others, acquisition, development and improvements of capital assets, public works, welfare and other community development projects.

Debt Service Fund: This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest. This fund accounts for the resources of three individual funds including "Fondo 10 - CAE Redemption Fund" (a special surtax redemption fund established by the CRIM with GDB which accounts for the 2% of property taxes collected by the CRIM); "Fondo 11 - CRIM Fund" (resources transferred from the Municipality's general fund to the CRIM for payment of debt issued for operational purposes) and the "Fondo 12 - IVU Municipal Redemption Fund" (.2% of the .5% from sales and use taxes deposited in the Municipal Administration fund of GDB to finance loans to Municipalities).

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USHUD - Community Development Block Grant Program (CDBG) Fund: CDBG fund is used to account for and report revenue sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. CDBG funds are received through the Office of Commissioner of Municipal Affairs ("OCAM"), a Commonwealth's governmental agency.

Rural Development Corporation (CDR) - Marine Facilities Fund: This fund is used to account for and report resources for the acquisition of marine facilities to be used by citizens of the Municipality. Those resources are financed through the Rural Development Corporation, a Commonwealth's governmental agency of the Puerto Rico Department of Agriculture.

GDB \$690,000 Line of Credit - Ojo de Agua Hotel Fund: This fund is used to account for and report the expenditures for the construction of a municipal hotel "Ojo de Agua". The line of credit is financed by the Governmental Development Bank of Puerto Rico ("GDB").

P.R. Department of Transportation (DTOP) Fund: This fund is used to account for and report revenue sources from the Puerto Rico Department of Transportation for capital improvements, public works and other capital outlays.

Capital Projects – Bonds and Notes Issuance Fund: This fund is used to account for and report financial resources from bonds proceeds and notes issuances which are restricted for acquisition or construction of capital assets. This fund reports transactions of individual funds of Bonds and Notes issued through GDB.

The Municipality also reports nonmajor governmental funds in a single column, which includes the following:

Special Revenue Funds: This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The core revenue source of the fund must represent a substantial portion of the fund's total inflows. The limitation on spending (specific purpose) may be imposed by external parties (creditors, grantors, contributors, other governments), by constitutional provisions, by enabling legislation or by action taken by the government's own highest level of decision-making authority.

Capital Project Funds: This fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital projects. Typically the fund is not used for routine or minor capital outlays (equipment, vehicles, furniture, among others) which are reported instead in the fund from which financial resources were expended. Rather, the fund is used primarily for major projects and acquisitions financed with borrowed or contributed resources. The use of a capital project fund frequently is required by debt covenants, grant contracts, law or regulation.

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period except for reimbursement-based (expenditure-driven) grants for which the availability period is 90 days.

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

The Municipality reports a liability for unearned revenues in the governmental funds statements. Unearned revenues arise when (1) resources received in advance of an exchange transaction, (2) resources received in advance in relation to a derived tax revenue, and (3) resources received in advance related to voluntary non-exchange transactions when eligibility requirements other than time requirements have not been met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, after related exchange transactions occur or applicable eligibility requirements are met the liability for unearned revenues is removed from the balance sheet and the revenue is recognized.

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

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

Notes to Financial Statements

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

Required Supplementary Information

Consists of the Budgetary Comparison Schedule – General Fund, the Schedule of Municipality's Proportionate Share of Net pension Liability and the Schedule of Municipality's Contributions, as required by GASB.

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NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. *Cash and cash equivalents and investments*

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

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by the Governmental Development Bank for Puerto Rico ("GDB").

4. *Restricted assets*

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

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

5. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales and use tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales and use tax) on the subsequent fiscal year.

6. *Interfund transactions*

The Municipality reports inter-fund transactions as follows:

Inter-fund loans:

Represent legally advances that are representative of lending/borrowing arrangements from one fund to other fund to finance payroll, payroll taxes and other expenditures. The current portion of such transactions are referred as to either "due from/to other funds" and the noncurrent portion as "advances to/from other funds". Amounts not expected to be collected within a reasonable period of time are reduced to the estimated realizable value and amounts not expected to be repaid are reported as "transfer-out" from the lender fund and "transfer-in" in the borrower fund.

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Inter-fund transfers: Represent legally flows of assets without equivalent flows of assets in return and without a requirement for repayment. These are reported as "transfers-out" (other financing uses) in the fund that issue the transfers and as "transfers-in" (other financing sources) in the fund receiving the transfers.

Inter-fund reimbursements: Represent repayment from a fund responsible for particular expenditures or expenses to the fund that initially finance them.

7. Inventories

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

8. Capital assets

Capital assets reported in the governmental activities in the Statements of Net Position include property, plant, equipment and infrastructure, (e.g., roads, bridges, sidewalks, and similar items). The Municipality defines capital assets (except for infrastructure assets) as assets that have an individual cost of \$500 or more and have a useful life of one or more years. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Land improvements	20
Buildings and building improvements	20-50
Infrastructure	20-40
Vehicles, machinery and equipment	5-15

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

9. Long-term obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the Statement of Net Position - governmental activities, consist of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities. Related bond issuance costs, whenever rise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

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NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

10. Compensated absences

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

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

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

11. Claims and judgments

The liability and expense amounts for claims and judgments are recorded in the government-wide statements as incurred or when a loss is probable and the amount can be reasonably estimated. Amounts are recorded as liabilities and expenditures in the general fund when they mature (generally, when payment is due).

12. Accounting for pension costs

The Municipal employees are covered by the retirement plans administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Municipality's employer contributions are recognized when due and when the Municipality has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of plan. Investments are reported at fair value. In the governmental fund statements pension expense is equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

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NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

13. Deferred outflows / inflows of resources

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

In the statement of net position deferred outflows / inflows of resources arise as a result of the following:

- a. The implementation of GASB Statement No. 68 "*Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*" and GASB Statement No. 71 "*Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*"
- b. Municipal license taxes ("patentes en suspenso") and voluntary non exchange transactions (grants) received in advance before time requirements are met are recorded as deferred inflows of resources. The deferred inflow of resources are recognized as inflow of resources (revenues) in the period when time requirements are met.

In the governmental funds balance sheet deferred inflows of resources arise as a result of the following:

- a. Recognition of *unavailable revenue* as a result of the application of the modified accrual basis of accounting. The governmental funds report *unavailable revenue* from one source: unavailable intergovernmental revenues. These amounts are recognized as an inflow of resources (revenue) in the period that the amounts become available.
- b. Municipal license taxes ("patentes en suspenso") and voluntary non exchange transactions (grants) received in advance before time requirements are met are recorded as deferred inflows of resources. The deferred inflow of resources are recognized as inflow of resources (revenues) in the period when time requirements are met.

14. Net position

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

Net investment in capital assets:	Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
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NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Restricted net position: The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

Unrestricted net position: Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

15. Net position flow assumption

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

16. Fund balances

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

Nonspendable: Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted: Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

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NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Committed:** Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.
- Assigned:** Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.
- Unassigned:** Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

17. Fund balance flow assumptions

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

18. Risk financing

The Municipality carries insurance coverage for professional, public responsibility, property and theft, auto and fidelity bond losses. In addition, the Municipality also obtains medical insurance for its employees. Pursuant to Act No. 63 of June 21, 2010 the municipalities of Puerto Rico procure and manage, at their own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The total cost of the annual insurance premiums are paid in full and recorded as expense by the Municipality during the fiscal year.

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NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Municipality obtains workers compensation insurance through the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. The annual cost of insurance is allocated to the Municipality and amounts are retained from monthly advances of property tax and municipal equalization fund sent to the Municipality by the CRIM.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration, a component unit of the Commonwealth of Puerto Rico. The annual premium is paid per licensed motor vehicle.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Puerto Rico Department of Labor and Human Resources ("PRDOL"). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to the PRDOL on a cost reimbursement basis.

Settled cases have not exceeded insurance coverage for any of the past three years.

19. Use of estimates

The preparation of the basic financial statements in accordance 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 disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

20. Adoption of new accounting pronouncements - GASB Statements No. 68 and 71

Effective July 1, 2014 the Municipality adopted the provisions of the **GASB Statement No. 68** "Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27" and **GASB Statement No. 71** "Pension Transition for Contributions Made Subsequent to the Measurement Date".

The primary objective of **Statement No. 68** is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement will bring the effect of **GASB Statement No. 67** "Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25" into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Retirement Systems. The Municipality, as a cost-sharing employer reported its allocated share of the Commonwealth's resulting Net Pension Liability from Statement No. 67 based on the their respective individual proportion to the collective net pension liability of all the governments participating.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The objective of **Statement No. 71** is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of **Statement No. 68** to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement shall be applied simultaneously with the provisions of Statement No. 68.

The implementation of these Statements have a significant impact on the Municipality's government-wide statements by restating the net position at beginning of year, recognition of deferred outflows and inflows of resources in the current year, recording of pension expense, adding new disclosure requirements and required supplementary information. Please refer to Notes F, N and P. The implementation has no impact on the Municipality's fund statements.

21. Future adoption of accounting pronouncements

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

- a. **GASB Statement No. 72** "*Fair Value Measurement and Application*". This Statement addresses accounting and financial reporting issues related to fair value measurements. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. (fiscal year ended June 30, 2016). Earlier application is encouraged.
- b. **GASB Statement No. 73** "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of **Statement No. 68**, "*Accounting and Financial Reporting for Pensions*," as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of **Statement 68**.

The Statement also amends certain provisions of **Statement No. 67**, "*Financial Reporting for Pension Plans*", and **Statement No. 68** for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of **Statement No. 68** are effective for financial statements for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017); the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016); and the requirements of this Statement for pension plans that are within the scope of **Statement No. 67** or for pensions that are within the scope of **Statement No. 68** are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016). Earlier application is encouraged.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- c. **GASB Statement No. 74** “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces **Statements No. 43**, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”, as amended, and **No. 57**, “*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*”. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in **Statement No. 25**, “*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*”, as amended, **Statement No. 43**, and **Statement No. 50**, “*Pension Disclosures*”. The Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016 (fiscal year ended June 30, 2017). Earlier application is encouraged.
- d. **GASB Statement No. 75** “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of **Statements No. 45**, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*”, as amended, and **No. 57**, “*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*”, for OPEB. **Statement No. 74**, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”, establishes new accounting and financial reporting requirements for OPEB plans. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017 (fiscal year ended June 30, 2018). Earlier application is encouraged.
- e. **GASB Statement No. 76** “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*”. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes **Statement No. 55**, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*”. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015 (fiscal year ended June 30, 2016) and should be applied retroactively. Earlier application is permitted.

COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- f. *GASB Statement No. 77* “*Tax Abatement Disclosures*”. Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015 (fiscal year ended June 30, 2017). Earlier application is encouraged.
- g. *GASB Statement No. 78* “*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*”. The objective of this Statement is to address a practice issue regarding the scope and applicability of **Statement No. 68**, “*Accounting and Financial Reporting for Pensions*”. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015 (fiscal year ended June 30, 2017). Earlier application is encouraged.
- h. *GASB Statement No. 79* “*Certain External Investment Pools and Pool Participants*”. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015 (fiscal year ended June 30, 2017). Earlier application is encouraged.

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

**COMMONWEALTH OF PUERTO RICO
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NOTE B - DEPOSITS

Custodial credit risk – deposits, is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico.

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral by the Municipality are held by agents designated by the Puerto Rico Secretary of Treasury but not in the Municipality’s name. At year-end the Municipality’s bank balance of deposits in commercial banks amounting to \$4,547,500 were covered by the FDIC and by pledged securities.

Deposits in governmental banks, all of which are uninsured and uncollateralized, are exposed to custodial credit risk. At year-end the Municipality’s bank balance in the Governmental Development Bank of Puerto Rico (“GDB”), a governmental bank, amounts to \$7,545,236.

NOTE C- DUE FROM GOVERNMENTAL ENTITIES

Amounts due from governmental entities as of June 30, 2014 follows:

	<u>Commonwealth Government Funds</u>	<u>Federal Government Funds</u>
<u>Major fund – General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 375,935	\$ -
Municipal Revenue Collection Center (“CRIM”) – property taxes Final Liquidation	280,348	-
Municipal Finance Corporation (“COFIM”) – sales and use taxes Final Liquidation	92,051	-
P.R. Department of Treasury – Christmas bonus reimbursement	36,278	-
GDB Municipal Development Fund – Final liquidation	32,556	-
Office of Commissioner of Municipal Affairs	8,000	-
<u>Major fund – Commonwealth Legislative</u>		
RC No.59 Series 2014-2015	58,403	-
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes Final Liquidation	159,466	-
GDB Municipal Redemption Fund – sales and use taxes Final Liquidation	4,783	-
Major fund – CDBG fund:		
Office of Commissioner of Municipal Affairs – CDBG	-	96,541
Major fund – P.R. Department of Transportation fund:		
P.R. Department of Transportation	198,663	-
Other governmental funds:		
P.R. Department of Labor – Law No. 52	77,824	-
P.R. Department of Justice – Public Order Code	39,076	-
P.R. Office of the Ombudsman for the Elderly	21,294	73,735
P.R. Department of Family – Child Care Program	-	44,925
Governor’s Authorized Representative (GAR) – FEMA (Irene Storm)	-	38,900
P.R. Department of Education – Child Care Food Program	-	9,563
	<u>\$ 1,384,677</u>	<u>\$ 263,664</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE C- DUE FROM GOVERNMENTAL ENTITIES - Continued

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

NOTE D- INTERFUND TRANSACTIONS

1. Due from/to other funds

<u>Receivable Fund</u>	<u>Payable Funds</u>	<u>Amount</u>
<u>General Fund</u>	Major Fund:	
	USHUD - Community Development Block Grant Program (CDBG)	\$ 29,040
	Other Governmental Funds:	
	Child Care and Development Block Grant	50,596
	Child Care Food Program	10,628
	Law No. 52	78,537
	P.R. Office of the Ombudsman for the Elderly	100,826
	Governor's Authorized Representative (GAR) – FEMA	38,900
	Public Order Code	39,076
	DTOP	23,392
	Rural Business Enterprise Grant	36,992
	GDB \$690,000 line of credit	9,214
<u>Debt Service Fund</u>	General fund	71
<u>\$2,310,000 Bond Issuance Fund</u>	General fund	15,431
		<u>\$ 432,703</u>

2. Transfers in (out)

<u>Transfer (out) Fund</u>	<u>Transfer in Funds</u>	<u>Amount</u>
<u>General Fund</u>	Major Fund:	
	Debt service fund	\$ 43,159
	Other Governmental Funds:	
	Child Care and Development Block Grant	48,544
	Law No. 52	37,308
<u>Debt Service Fund</u>	General fund	772,883
<u>Bonds and notes issuance fund</u>	General fund	139,078
<u>Other governmental funds</u>	General fund	1,203
		<u>\$ 1,042,175</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
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JUNE 30, 2015**

NOTE D- INTERFUND TRANSACTIONS – Continued

Transfers among individual funds were made for operational purposes. Transfers include:

- a. Principal and interest payments of long-term debt of \$43,159 transferred from the general fund to the debt service fund.
- b. Interfund loans not expected to be repaid to the general fund transferred from the general fund to Child Care and Law No. 52 funds for \$85,852.
- c. Transfers from debt service fund to the general fund for excess funds on Municipal Redemption Fund – sales and use taxes for \$771,271 and interest earned on restricted cash of \$1,612.
- d. Transfers of \$139,078 from bonds and notes issuance fund to the general fund for interest on cash restricted with fiscal agent.
- e. Miscellaneous transfers of \$1,203 from other governmental funds to the general fund for interest earned.

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**COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE E- CAPITAL ASSETS

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

	<u>Balance July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2015</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 7,960,293	\$ -	\$ -	\$ 7,960,293
Construction in progress	2,121,259	1,306,731	860,532	2,567,458
Total capital assets not being depreciated:	<u>10,081,552</u>	<u>1,306,731</u>	<u>860,532</u>	<u>10,527,751</u>
Capital assets, being depreciated:				
Land improvements	924,782	-	-	924,782
Buildings and building improvements	23,449,148	633,841	-	24,082,989
Infrastructure	10,963,134	710,761	71,834	11,602,061
Vehicles, machinery and equipment	8,413,231	106,839	-	8,520,070
Total capital assets being depreciated	<u>43,750,295</u>	<u>1,451,441</u>	<u>71,834</u>	<u>45,129,902</u>
Less accumulated depreciation for:				
Land improvements	258,392	47,475	-	305,867
Buildings and building improvements	5,890,250	500,831	-	6,391,081
Infrastructure	5,169,205	262,790	64,582	5,367,413
Vehicles, machinery and equipment	6,263,725	388,486	-	6,652,211
Total accumulated depreciation	<u>17,581,572</u>	<u>1,199,582</u>	<u>64,582</u>	<u>18,716,572</u>
Total capital assets being depreciated, net	<u>26,168,723</u>	<u>251,859</u>	<u>7,252</u>	<u>26,413,330</u>
Governmental activities capital assets, net	<u>\$ 36,250,275</u>	<u>\$ 1,558,590</u>	<u>\$ 867,784</u>	<u>\$ 36,941,081</u>

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

Governmental activities:

General government	\$ 162,952
Public works and sanitation	522,309
Public safety	42,876
Culture and recreation	439,825
Welfare and community development	31,010
Health	450
Education	160
Total depreciation expense, governmental activities	<u>\$ 1,199,582</u>

On September 25, 2001 the US Department of Commerce, Economic Development Administration (EDA) approved a \$1,000,000 grant to the Municipality for the construction of a Waterfront Tourism Business Center Sunset Village in the Municipality. The receipt of such grant is conditioned upon compliance with terms and conditions of a grant agreement. As required by the grant agreement, for projects involving acquisition, construction, or improvement of a building, the Municipality should agree to declare and furnish to EDA, prior to the initial award disbursement, a lien, covenant, or other statement satisfactory to EDA in form and substance of EDA's interest in the property acquired or improved in whole or in part with funds made available under this award. On December 20, 2002 the Municipality signed a deed of a voluntary mortgage in the amount of \$1,000,000 in favor of EDA over a parcel of land on which the project is located. During a 20-year term, the Municipality shall not sell, lease, mortgage or otherwise use of alienate any right to, or interest in the grant property as prohibited by the grant agreement, or use that property for any other purposes than the purposes for which the project was financed by EDA unless prior approval of the Assistant Secretary of the Department of Commerce is obtained. Upon violation of applicable restrictions, the total amount will become due and payable by the Municipality to EDA.

**COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2015**

NOTE F- LONG-TERM DEBT

1. Summary of long-term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2015:

	Balance at July 1, 2014 (as restated)	Increases	Decreases	Balance at June 30, 2015	Due within one year
General, Special Obligation					
Bonds and Notes	\$ 8,959,000	\$ -	\$ 555,000	\$ 8,404,000	\$ 592,750
Note payable to CRIM- Law No. 42	378,083	-	11,909	366,174	12,657
Note payable to CRIM- financing of delinquent accounts	37,054	-	2,058	34,996	2,058
Compensated absences	1,312,832	102,178	144,689	1,270,321	140,932
Christmas Bonus	142,950	145,111	142,950	145,111	145,111
Payable to CRIM-property tax advances	18,603	30,526	-	49,129	49,129
Payable to PREPA	929,491	-	553,556	375,935	375,935
Judgments and Claims	16,000	12,000	-	28,000	-
\$690,000 line of Credit, GDB	127,467	-	-	127,467	-
Net pension liability	21,283,869	1,938,582	-	23,222,451	-
	<u>\$ 33,205,349</u>	<u>\$ 2,228,397</u>	<u>\$ 1,410,162</u>	<u>\$ 34,023,584</u>	<u>\$ 1,318,572</u>

2. General and special obligation bonds and notes

Pursuant to Act No. 64 of July 3, 1996 as amended, known as the Puerto Rico Municipal Financing Act of 1996 the Municipality is subject to a legal limitation on the total amount of indebtedness for general obligation bonds or notes, special obligation bonds, notes or instruments. The legal debt limitation of the Municipality for general obligation bonds or notes or notes in advance of general obligation bonds is equal to 10% of the total appraised value of the property located in the Municipality should be as said appraisal values are determined by the CRIM. For special obligation bonds, notes or instruments the Municipality is prevented to incur in additional obligations if the annual payment of principal and interest on said bonds, notes or instruments together with the annual payment of principal and interest of the outstanding ones at that time exceeds 10% of the average recurrent operating income of the Municipality of the 2 fiscal years immediately preceding the current fiscal year. These limitations are not applicable to obligations or loans whose source of repayment is the SUT Municipal Redemption Fund. Debt margin for these obligations are based on the Municipality's repayment capacity.

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2015 amount to \$8,404,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. The Municipality levies an annual additional special ad valorem tax of 2% of the assessed value of personal and real property which is collected by the CRIM and deposited in the CAE Redemption Fund at GDB. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "IVU Municipal Redemption Fund" at GDB. Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of certain long-term debt issued for operational purposes (special obligation bond of \$635,000) are made through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). Principal and interest payments of special obligation notes of \$705,000, \$1,428,000 and \$395,000 are made through the "IVU Municipal Redemption Fund". A detail of the general and special obligation bonds and notes as of June 30, 2015 follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE F- LONG-TERM DEBT- Continued

	Outstanding Amount
1994 public improvement bonds of \$721,000 due in annual installments of \$17,000 to \$52,000 through January 1, 2017; bearing interest at 5%	\$ 101,000
2002 special obligation bonds of \$635,000 due in annual installments of \$5,000 to \$50,000 through January 1, 2027; bearing interest at rates ranging from 1.53% to 6.62% (1.52 at June 30, 2015)	455,000
2004 general obligation bonds of \$530,000 due in annual installments of \$12,000 to \$35,000 through January 1, 2029; bearing interest at rates of 4.25%	366,000
2008 general obligation bonds of \$500,000 due in annual installments of \$5,000 to \$40,000 through July 1, 2032; bearing interest at rates ranging from 1.53% to 7.25% (1.52% at June 30, 2015)	435,000
2008 general obligation bonds of \$455,000 due in annual installments of \$15,000 to \$50,000 through July 1, 2023; bearing interest at rates ranging from 1.53% to 7.50% (1.52% at June 30, 2015)	330,000
2008 special obligation notes of \$705,000 due in annual installments of \$50,000 to \$125,625 through July 1, 2017; bearing interest at rates ranging from 1.53% to 5.40% (1.52% at June 30, 2015)	345,000
2008 special obligation notes of \$1,428,000 due in annual installments of \$48,000 to \$215,800 through July 1, 2020; bearing interest at rates ranging from 1.53% to 5.40% (1.52% at June 30, 2015)	1,072,000
2009 general obligation bonds of \$325,000 due in annual installments of \$5,000 to \$30,000 through July 1, 2034; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	300,000
2010 general obligation bonds of \$1,050,000 due in annual installments of \$15,000 to \$90,000 through July 1, 2035; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	980,000
2002 general obligation bonds of \$1,660,000 due in annual installments of \$25,000 to \$130,000 through July 1, 2026; bearing interest at rates ranging from 2.7% to 5.6% (4.80% at June 30, 2015)	1,115,000
2012 general obligation bonds of \$625,000 due in annual installments of \$70,000 to \$115,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	400,000
2012 general obligation bonds of \$395,000 due in annual installments of \$45,000 to \$70,000 through July 2, 2018; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	250,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE F- LONG-TERM DEBT – Continued

2013 general obligation bonds of \$2,310,000 due in annual installments of \$55,000 to \$215,000 through July 2, 2033; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: right;">Outstanding Amount</td> </tr> <tr> <td style="border-top: 1px solid black; text-align: right;">2,255,000</td> </tr> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black; text-align: right;">\$ 8,404,000</td> </tr> </table>	Outstanding Amount	2,255,000	\$ 8,404,000
Outstanding Amount				
2,255,000				
\$ 8,404,000				

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2015 follows:

June 30,	Principal	Interest
2016	\$ 592,750	\$ 516,431
2017	756,425	473,677
2018	742,425	425,119
2019	665,800	376,696
2020	504,800	353,300
2021-2025	2,011,800	1,367,602
2026-2030	1,685,000	731,099
2031-2035	1,355,000	210,825
2036-2037	90,000	-
Totals	\$ 8,404,000	\$ 4,454,749

Credit rating agencies have been downgrading its rating on the Commonwealth debt obligations based on among other problems in years of deficit financing, pension underfunding, budgetary imbalance and a prolonged economic recession. These downgrades may have a significant impact in the economic environment of Puerto Rico and the Commonwealth Government, its instrumentalities and the municipalities in critical areas such as access to markets and liquidity for the current fiscal year and thereafter. Therefore, the participation of the Municipality in the bond market has been delayed waiting for the credit rating of the Commonwealth and its instrumentalities to improve or for more favorable market conditions.

3. Other long-term liabilities

<p>Note payable to CRIM (Law No. 42) – Law No. 42 of January 26, 2000 (as amended by Law No. 146 of October 11, 2001 and Law No. 172 of August 11, 2002) was enacted to authorize the CRIM to obtain a special loan in the form of a line of credit from the Governmental Development Bank of Puerto Rico (GDB) to finance a debt the municipalities of Puerto Rico owe to CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Amounts are retained from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the CRIM. Law No.42 was amended by Law no. 146 to extend from 10 to 30 years the financing period and by Law No. 172 to extend the debt period to June 30, 2001. On November 26, 2002 the Municipality entered into the financing agreement with the CRIM for a total amount of \$476,395, bearing interest at 6.18% and due on July 1, 2032. Debt service requirements in future years are as follows:</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: right;">Outstanding Amount</td> </tr> <tr> <td style="border-top: 1px solid black; text-align: right;">\$ 366,174</td> </tr> </table>	Outstanding Amount	\$ 366,174
Outstanding Amount			
\$ 366,174			

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE F- LONG-TERM DEBT – Continued

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 12,657	\$ 22,464
2017	13,453	21,669
2018	14,298	20,824
2019	15,196	19,925
2020	16,151	18,971
2021-2025	97,314	78,294
2026-2030	131,977	43,631
2031-2032	65,128	5,114
Totals	<u>\$ 366,174</u>	<u>\$ 230,892</u>

**Outstanding
Amount**

Note payable to CRIM (Financing of delinquent accounts)– On March 27, 2002 the Municipality entered into a financing agreement with the CRIM in the amount of \$165,479 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non-revolving line of credit bearing interest of 6.5% for the first five years and variable for the next twenty-five years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Also, during the first five years any collection from those delinquent accounts was credited to the loan principal. After the five year period the loan outstanding balance was restructured for a twenty-five-year period. Debt service requirements in future years are as follows:

34,996

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 2,058	\$ 876
2017	2,058	825
2018	2,058	773
2019	2,058	722
2020	2,058	670
2021-2025	10,290	2,577
2026-2030	10,290	1,289
2031-2032	4,126	155
Totals	<u>\$ 34,996</u>	<u>\$ 7,887</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE F- LONG-TERM DEBT – Continued

	<u>Outstanding Amount</u>
Compensated absences – includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality’s commitment to fund such costs from future operations. The amount is paid with unrestricted funds	1,270,321
Christmas Bonus – represents the accrued portion corresponding to fiscal year 2015 of the Christmas bonus to be paid in December 2015.	145,111
Payable to CRIM, property tax advances – represents the amount reported by CRIM of the settlement of excess of advances over actual collections of property taxes applicable to fiscal year 2014. (See related note J)	49,129
Payable to PREPA – As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority (“PREPA”) should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax (“CELI”) based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. Balance outstanding as of June 30, 2015 of \$375,935 represents the unamortized excess amount of annual energy charges over the CELI obligation of fiscal year 2012-2013, which will be fully amortized during the next fiscal period. The applicable transactions of fiscal period 2013-2014 to be recognized in the current year financial statements have not been produced and informed by PREPA. As of June 30, 2015 the outstanding amount is recognized by the Municipality as a receivable and a liability to PREPA.	375,935
Claims and judgments - represents the estimated loss of legal cases to be paid subsequent to June 30, 2015. The awarded amount, if any, will be paid with unrestricted funds.	28,000
\$690,000 line of Credit, GDB – The Municipality has an approved line of credit of \$690,000 with the Governmental Development Bank of Puerto Rico (“GDB”) under which the Municipality may borrow at an interest rate of 1.50% over prime rate with a minimum of 6% and a maximum of 12%. The line of credit, which is being used to finance the construction of the “Ojo de Agua” Municipal Hotel, will be repaid through the issuance of a revenue bond and is due on December 1, 2015. The line of credit was not used during fiscal year 2014-2015. The balance outstanding at June 30, 2015 includes accrued interest.	127,467
Net pension liability – represents the proportional share of the collective pension liability of all employers for benefits provided through the pension plan as of June 30, 2015 (See related note N)	23,222,451

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE G - DEFERRED INFLOWS OF RESOURCES

1. Government wide and governmental funds:

Municipal license taxes ("patentes en suspenso") are due on July 1 and January 1 of the subsequent fiscal year. Taxes may be paid in advance to the due dates. These taxes paid in advance are recorded as revenues or inflows of resources in the following fiscal period. Due to this time requirement the amount paid in advance of \$387,226 is recognized as deferred inflows of resources as of June 30, 2015.

2. Governmental funds – unavailable revenues:

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

	Commonwealth Government Funds	Federal Grants
<u>Major fund – General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 375,935	\$ -
Municipal Revenue Collection Center ("CRIM") – Final Liquidation	280,348	-
Municipal Finance Corporation ("COFIM") – sales and use taxes Final Liquidation	92,051	-
P.R. Department of Treasury – Christmas bonus reimbursement	36,274	-
Municipal Finance Corporation ("COFIM") – sales and use taxes Final Liquidation	32,556	-
Office of Commissioner of Municipal Affairs	8,000	-
<u>Major fund – Commonwealth Legislative</u>		
RC No.59 Series 2014-2015	58,403	-
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes Final Liquidation	146,367	-
GDB Municipal Redemption Fund – sales and use taxes Final Liquidation	4,783	-
<u>Major fund – CDBG fund:</u>		
Office of Commissioner of Municipal Affairs – CDBG	-	61,863
<u>Major fund – P.R. Department of Transportation fund:</u>		
P.R. Department of Transportation	198,663	-
<u>Other governmental funds:</u>		
P.R. Department of Labor – Law No. 52	77,824	-
P.R. Department of Justice – Public Order Code	39,076	-
P.R. Office of the Ombudsman for the Elderly	1,996	19,979
P.R. Department of Family – Child Care Program	-	44,925
Governor's Authorized Representative (GAR) – FEMA (Irene Storm)	-	38,900
P.R. Department of Education – Child Care Food Program	-	7,706
	\$ 1,352,276	\$ 173,373

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE H- FUND BALANCE

1. Fund balance classifications

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

	General	Commonwealth Legislative Resolutions	Debt Service	USHUD - Community Development Block Grant Program	Rural Development (CDR) - Marine Facilities	GDB \$690,000 Line of Credit - Ojo de Agua Hotel	PR Department of Transportation (DTOP)	Capital Projects - Bonds and Notes Issuance Fund	Other Governmental Funds	Total
Restricted:										
General public works and sanitation	178,595	-	-	-	-	-	14,050	-	48,948	241,593
Sports, culture and recreation	10,324	-	-	-	-	-	-	-	-	10,324
Housing, welfare and community development	-	-	-	-	-	-	-	-	51,583	51,583
Debt service	-	-	1,592,282	-	-	-	-	-	-	1,592,282
Capital outlays	-	627,972	-	-	820,468	-	-	2,114,017	116,603	3,679,060
	<u>88,919</u>	<u>627,972</u>	<u>1,592,282</u>	<u>-</u>	<u>820,468</u>	<u>-</u>	<u>14,050</u>	<u>2,114,017</u>	<u>217,134</u>	<u>5,574,842</u>
Committed:										
General public works and sanitation	754,541	-	-	-	-	-	-	-	-	754,541
Capital outlays	54,714	-	-	-	-	-	-	-	-	54,714
General government and other purposes	348,316	-	-	-	-	-	-	-	-	348,316
	<u>1,157,571</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,157,571</u>
Assigned:										
General public works and sanitation	1,948,760	-	-	-	-	-	-	-	-	1,948,760
Public safety	1,468	-	-	-	-	-	-	-	-	1,468
Sports, culture and recreation	815	-	-	-	-	-	-	-	-	815
Housing, welfare and community development	1,887	-	-	-	-	-	-	-	-	1,887
Capital outlays	28,338	-	-	-	-	-	-	-	-	28,338
General government and other purposes	37,518	-	-	-	-	-	-	-	-	37,518
	<u>2,018,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,018,786</u>
Unassigned	1,808,968	-	-	(61,862)	-	(14,411)	(198,663)	-	(250,153)	1,283,879
	<u>\$ 5,174,244</u>	<u>\$ 627,972</u>	<u>\$ 1,592,282</u>	<u>\$ (61,862)</u>	<u>\$ 820,468</u>	<u>\$ (14,411)</u>	<u>\$ (184,613)</u>	<u>\$ 2,114,017</u>	<u>\$ (33,019)</u>	<u>\$ 10,035,078</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE H- FUND BALANCE – Continued

2. Fund balance deficits

Certain special funds included in the fund statements disclosed fund balance deficits as follows:

<u>Funds</u>	<u>Amount</u>
<u>Major Funds:</u>	
P.R. Department of Transportation (DTOP)	\$ 184,613
USHUD - Community Development Block Grant Program (CDBG)	\$ 61,862
GDB \$690,000 Line of Credit	\$ 14,441
<u>Other Governmental Funds:</u>	
Law No. 52	\$ 77,791
Child Care and Development Block Grant Program	\$ 50,452
Public Order Code	\$ 39,076
Governor's Authorized Representative (GAR) – FEMA	\$ 11,498
P.R. Office of the Ombudsman for the Elderly	\$ 18,577
Rural Business Enterprise Grant	\$ 19,780

These deficits result from the recognition of deferred inflows of resources for unavailable revenues. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary.

NOTE I- NET INVESTMENT IN CAPITAL ASSETS

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The portion of the debt attributable to significant unspent proceeds should not be included in the calculation. The amount of net investment in capital assets as of June 30, 2015 is comprised of the following:

<u>Description</u>	<u>Amount</u>
Capital assets, net of accumulated depreciation	\$ 36,941,081
Outstanding balance on capital related debt	(8,076,467)
Unspent capital related debt proceeds	2,184,461
	<u>\$ 31,049,075</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE J – PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2015 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	2.00%	2.00%
Total tax rate:	7.03%	9.03%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
Total percent to be paid by taxpayers:	<u>6.83%</u>	<u>8.83%</u>

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

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A receivable of \$280,348 from the final settlement of fiscal year 2014-2015 is recorded as deferred inflows of resources since is not available are required by current standards. In addition, a payable of \$49,129 resulting from the final settlement of fiscal year 2013-2014 is recorded as other long-term debt in the government-wide financial statements since it will not be paid with current available financial resources.

NOTE K – MUNICIPAL LICENSE TAXES

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before five (5) business days after April 15.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE K – MUNICIPAL LICENSE TAXES - Continued

During the fiscal year ended June 30, 2015, the tax rates were as follows:

- Financial business – 1.50% of gross revenues
- Other organizations - .50% of gross revenues

Tax payment is due 15 days after each period due date or on July 15 and January 15 of the subsequent fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made along with tax return submission on or before five (5) business days after April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$387,226 are recorded as deferred inflows of resources.

NOTE L – SALES AND USE TAXES

As imposed by Commonwealth and Municipal laws and regulations, the citizens of Puerto Rico are subject to a sales and use tax (“SUT”) on a broad range of goods and services. The total tax is imposed at a combined 7% rate of which 6% belongs to the Commonwealth (collection process administered through the Puerto Rico Department of Treasury) and 1% for the municipalities (collection process administered through the Municipal Finance Corporation – “COFIM”).

The tax is due the 20th day of each month based on tax collected in the preceding month. Merchants at the Municipality of Rincón render their tax return and payment through COFIM’s web site or through a bank institution.

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014 the Commonwealth approved Act No. 18 and Act No. 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

Act No. 18 known as the “Municipal Administration Fund Law” was effective February 1, 2014. This Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (“COFINA”), a component unit of the Commonwealth and a related entity of GDB and creates a special fund called “Municipal Administration Fund” (“FAM”) under custody of GDB. The FAM permits the Municipalities to guarantee and pay long term debt and provide funds for its general operations. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Municipality of Rincón signed the agreement to be covered.

The FAM will be funded in all fiscal years with an amount attributable to the .5% of the Commonwealth’s SUT for the current fiscal year once all required deposits by law have been made to COFINA from the 6% Commonwealth’s SUT. The .5% is distributed as follows:

- a. .2% deposited in the Municipal Development Fund to be distributed to the municipalities to finance operational costs,
- b. .2% deposited in a Municipal Redemption Fund or may be deposited in the municipalities’ general fund. The municipalities has the option to maintain funds in the Municipal Redemption Fund to increase its debt margin and,

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE L – SALES AND USE TAXES - Continued

- c. .1% deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

To the extent the amount of Commonwealth SUT collections available for deposit into the FAM during any fiscal year is less than the amount attributable to 0.5% of the Commonwealth sales and use tax for such fiscal year, the Commonwealth's General Fund is required to cover any such shortfall.

Act No. 19, effective on February 1, 2014, created the Municipal Finance Corporation ("COFIM") a public corporation and a component unit of GDB. COFIM is authorized to issue bonds and use other financing mechanisms to pay or refinance all or a portion of the municipalities' debt obligations payable from the 1% municipal SUT. The Act includes provisions for municipalities that do not want to be covered by Act No. 18. Special rules apply for those municipalities. As discussed above the Municipality of Rincón signed the agreement to be covered by Act No. 18.

The first collections of the 1% municipal SUT are deposited into the COFIM's sinking fund until the greater of: .3% of the 1% municipal SUT or an Annual Rental Fee ("RFA"). The RFA for fiscal year 2014-2015 is \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess amount of 1% municipal SUT remaining after the required deposit to the COFIM's sinking fund (the "1% Municipal Transfer") is transferred to the general fund of municipalities or to the Municipal Redemption Fund as decided by the municipality. If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

The Act provides for monthly cash advances from GDB to the Municipalities within the first ten days of each month. These cash advances are necessary to address the cash shortfall caused by the timing delay resulting from the lag in availability of operational funds to the municipalities caused by interposing the COFIM (Act No. 19) and COFINA (Act No. 18) sinking fund requirements prior to making such funds available to the municipalities. Such advances are payable from the amount to be received from 1% Municipal Transfer as a result of Act No. 19 and then from the FAM as a result of Act No. 18. If such cash advances exceeds the amount corresponding to the 1% Municipal Transfer and the FAM, the excess will be deducted on a prorate basis from the next fiscal year cash advances. Otherwise, the excess amount will be paid to the municipalities.

Subsequent to June 30, 2015 GDB submitted to the Municipality the final settlement of the 1% Municipal Transfer, FAM Municipal Development Fund, and the IVU Municipal Fund in which actual cash collections exceeded cash advances by \$92,051 (1% Municipal Transfer), \$32,556 (FAM Municipal Development Fund) and \$4,783 (IVU Municipal Redemption Fund). These amounts are recorded as deferred inflows of resources in the governmental fund statements since is not available are required by current standards.

As of June 30, 2015 the Municipality recorded as revenue \$1,354,170 in the general fund of which (a) \$564,371 corresponds to the FAM Municipal Development Fund; (2) \$400,901 which corresponds to the 1% Municipal Transfer and (c) \$388,898 which correspond to a not-recurrent SUT income pursuant to Act No. 139 of 2013. The debt service fund reported \$351,936 corresponding to the IVU Municipal Redemption Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE M – INTERGOVERNMENTAL REVENUES AND FEES, FINES AND CHARGES FOR SERVICES - GENERAL FUND

1. Intergovernmental revenues in the General Fund are comprised of the following:

	Amount
Amount of municipal subsidies and equalization fund sent by CRIM	\$ 4,666,692
Reimbursement from Commonwealth Government of Christmas Bonus expenditure	126,867
Special laws and pensioner additional benefits subsidy from Commonwealth Government	75,400
Additional uniform contribution subsidy from Commonwealth Government	24,110
	\$ 4,893,069

2. Fees, fines and charges for services revenues reported in the general fund are comprised of the following:

	Amount
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	\$ 1,633,041
P.R. Department of Education – transportation services to students	233,128
Construction excise tax	305,837
Rental income	70,449
Licenses and permits	11,057
Fines	1,835
Other	9,060
	\$ 2,264,407

The amount reported as compensation in lieu of tax (“CELI”) of \$1,633,041 is composed of \$1,079,485 of an estimated CELI plus \$553,556 representing the amortization of prior years’ CELI amount used to finance the prior years’ excess amount of annual energy charges over the CELI obligation as reported in Note F. The Municipality reported as CELI and as electric power expense the estimated amount of \$1,079,485 since PREPA has not reported to the Municipality the actual CELI and electric power expense to be reported in fiscal year 2014-2015 financial statements.

NOTE N – RETIREMENT PLAN

1. Plan description

The Municipality is a participating employer in a retirement plan administered by the Employee’s Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. Prior to July 1, 2013 the system operated under the following benefits structures:

- *Act No. 447 of May 15, 1951* (“Act 447”) effective on January 1, 1952 for members hired up to March 31, 1990,
- *Act No. 1 of February 16, 1990* (“Act 1”) for members hired on or after April 1, 1990 and ending on or before December 31, 1999,

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE N – RETIREMENT PLAN - Continued

- *Act No. 305 of September 24, 1999* (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 3, 2013.

Employees under Act 447 and Act 1 are participants of a cost-sharing multiple employer defined benefit plan. Act 305 members are participants under a pension program known as System 2000, a hybrid defined contribution plan. Under System 2000 there was a pool of pension assets invested by the System, together with those of the current defined benefit plan. Benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account. Effective on July 1, 2013 Act No. 3 of 2013 (“Act 3”) amends the provisions of the different benefits structures under the ERS. Act 3 moves all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act 447 and Act 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year.

2. *Benefits provided*

Eligibility for retirement. Act 3 establish the following retirement eligibility requirements: (1) Act 447 regular employees upon attaining a range between 59 to 61 years (depending of date of birth) and 10 years of creditable service, (2) Act 1 employees upon attaining 55 years with 30 years of creditable service, (3) System 2000 regular employees upon attaining a range between 61 to 65 years (depending of date of birth) and, (4) Act 3 employees hired after July 1, 2013 upon reaching 67 years. High risk employees (state and municipal police, firefighters and custody officials) under Act 447 and Act 1 will be eligible at 55 years with 30 years of creditable service, for System 2000 employees at 55 years of service and for Act 1 employees hired after July 1, 2013 upon reaching 58 years.

Accrued benefits. All members are entitled to a lifetime annuity based on the balance of the deferred contribution individual account at the time of the retirement calculated based on a factor that will incorporate the individual’s life expectancy and a rate of return. For Act 447 and Act 1 active participants all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan. These participants will receive a pension at retirement age equivalent to what they have accrued under Act 447 and Act 1 up to June 30, 2013 plus the lifetime annuity corresponding to contributions made to the individual account after July 1, 2013 as described above. Act 447 participants, except police and mayors, may elect to coordinate coverage with Social Security benefits (“Coordinated plan”). Under this option participants are subject to a benefit recalculation upon attainment of the Social Security Retirement Age. For all members, if the balance of the defined contribution individual account is less than \$10,000 the amount shall be paid as a lump sum instead of an annuity. Effective July 1, 2013 the minimum monthly pension amount for members who retired or disabled before July 1, 2013 is \$500.

Termination benefits. Members are eligible to a lump sum payment of the defined contribution individual account as of the date of the permanent separation of service upon termination of service prior to 5 years of service or if the balance of the defined contribution individual account is less than \$10,000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE N – RETIREMENT PLAN – Continued

Deferred retirement. Members are eligible at the applicable retirement eligibility age to a lifetime annuity based on the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) upon termination of service with 5 or more years of service (10 years of creditable service for Act 447 and Act 1 members) but prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal from the defined contribution individual account.

Death benefits. For non-retired members their designated beneficiaries will receive a refund of the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members). For pensioned members retired prior to June 30, 2013 the annual income to a widow or widower or dependent children is equal to 60% of the retirement benefit payable for life for a surviving spouse or disabled children and payable until age 18 or age 25 if pursuing studies for non-disabled children. For pensioned members retired after June 30, 2013 payments to beneficiaries will be the excess, if any, of the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) over the total annuity payments paid to the member and any beneficiaries.

Disability benefits. Members who are permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be entitled to the balance of the deferred contribution individual account in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant, plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) at the applicable retirement eligibility age. Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447. A disability benefits program is established which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Office of the Commissioner of Insurance of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the participant.

Special laws and pensioner additional benefits. The Municipality is required to cover other retirement benefits of its retired employees (if retired prior to July 1, 2013) as required by Commonwealth's laws, including: (1) various special laws – ad-hoc cost of living allowance adjustments (COLA) provided in prior years; (2) various special laws –additional minimum pension benefits and, (3) Act 3 retired pensioners "Additional Benefits Program". All of these other retirement benefits are applicable only to employees who retired prior to July 1, 2013 under Act 447 and Act 1. The "Additional Benefits Program" includes: (1) a medication bonus of \$100 per member which shall be paid no later than July 15 of each year; (2) a Christmas bonus of \$200 per member which shall be paid no later than December 20 of each year and, (3) a matching share of \$1,200 for healthcare insurance plan. These healthcare benefits are provided through insurance companies whose premiums are paid by the retired employees with the matching share financed by the Municipality.

3. Contributions

The Act No. 3 is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Contribution rates are not actuarially determined.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE N – RETIREMENT PLAN – Continued

Members. All participants (non-coordinated plan) are required to contribute 10% of gross salary. Participants under the Coordinated plan (only Act 447 participants with benefits coordinated with social security benefits, as described above) are required to contribute 8.5% of gross salary up to \$6,600 plus 10% of gross Salary in excess of \$6,600 for fiscal year 2014-2015 and 10% of gross salary effective July 1, 2015. Members may voluntarily make additional contributions to their defined contribution individual account.

Payroll-based employer contribution. The Municipality contributed 13.275% of gross salary for fiscal year 2014-2015. Act 3 requires an additional 1% annually for each of the next fiscal year and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The Municipality contributed \$354,008 during fiscal year 2014-2015. These amount represented the 100% of the required contribution for the corresponding year.

Additional uniform contribution. To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of 2013, which amended Act 447 to provide for an Additional Uniform Contribution (“AUC”). The AUC will be financed by all participating employers (including the Municipality) of the ERS. Beginning with the 2014-2015 until 2032-2033 fiscal year, the AUC will be the uniform contribution certified by the external actuary of the ERS at least 120 days prior to the start of each fiscal year, as necessary to avoid having the projected gross assets of the ERS, during any subsequent fiscal year, to fall below \$1,000,000,000. The ERS will determine the amount of AUC to be billed and paid by each employer during each fiscal year. Commonwealth laws provide for a subsidy of the AUC obligation, applicable to all participating employers (including the Municipality) of the ERS that the Puerto Rico Office of Management and Budget (“OMB”) determine do not have financial capability to pay the AUC obligation. For fiscal year 2014-2015 the Municipality’s AUC obligation amounted to \$96,439 and the OMB provided a subsidy of \$24,110.

Disability insurance. As described above, a disability benefits program is established which shall provide a temporary annuity in the event of total and permanent disability. All members shall mandatorily contribute to a disability insurance established by Act 3 for which participants shall have to contribute such sums, fixed in dollars or a percent of the salary determined by the ERS. The contribution required is equal to or less than .25% of the participant's salary. This contribution shall not be credited to the participant's deferred contribution individual account.

Special laws and pensioner additional benefits. These other retirement benefits are funded on a pay-as-you-go basis and billed by ERS to the Municipality at the beginning of each fiscal year. As required by Act 3, the invoice includes a supplemental contribution of \$2,000 per pensioner to finance the Additional Benefits Program. The Municipality recorded \$122,605 as expenditure in the general fund for these additional benefits for the fiscal year 2014-2015 and the OMB provided a subsidy of \$75,400.

4. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2014 under **GASB Statement No. 67** “Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25”. Furthermore, on March 8, 2016 the ERS issued a **GASB Statement No. 68** report of unaudited information including pension amounts by employer and the corresponding employer allocation percentage. The Municipality disclosed the following based on this unaudited data reported by ERS and the ERS June 30, 2014 Actuarial Valuation Report:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE N – RETIREMENT PLAN – Continued

At June 30, 2015, the Municipality reported a liability of \$23,222,451 for its proportionate share of the net pension liability (unaudited). The collective net pension liability which amounts to \$30,092,029,000 (unaudited) was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013 calculated based on a discount rate and actuarial assumptions and projected forward to June 30, 2014. There have been no significant changes between the valuation date of July 1, 2013 and the fiscal year end. The Municipality's proportion of the net pension liability was based on a projection of the Municipality's long-term share of contributions to the pension plan relative to the projected contributions of all ERS participants, actuarially determined. At June 30, 2014, the Municipality's proportion was .07717%.

For the year ended June 30, 2015, the Municipality recognized pension expense of \$1,331,774. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2015, the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Unaudited amounts as reported by ERS	\$ 792,644	\$ 185,836
Municipality's contributions subsequent to measurement date	573,052	-
	\$ 1,365,696	\$ 185,836

The \$573,052 reported as deferred outflows of resources related to Municipality's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense in future fiscal years based on the average expected remaining service lives of all plan participants or in the case of projected and actual investment earnings in a 5 year period. The detailed components of the deferred outflows of resources and deferred inflows of resources were not informed by ERS.

5. Actuarial assumptions

The actuarial valuation was determined using the following actuarial methods and assumptions:

Valuation date	July 1, 2013, projected forward to June 30, 2014.
Measurement date	June 30, 2014
Actuarial cost method	Entry age normal method
Actuarial assumptions:	
Compensation increases	3.0% per year, no compensation increases are assumed until July 1, 2017
Investment rate of return	6.75%, net of investment expenses
Discount rate	4.29%
Municipal bond rate	4.29%, based on Bond Buyer General Obligation 20-Bond Municipal Bond Index

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE N – RETIREMENT PLAN – Continued

Mortality

Pre-retirement mortality:

RP-2000 Employee Mortality rates for males and females projected on a generational basis using Scale AA for general employees not covered by Act 127; RP-2000 Employee Mortality rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA for employees covered by Act 127. As generational tables, they reflect mortality improvements both before and after the measurement date.

Post-retirement mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational basis starting in 1994 using Scale AA. As generational table, it reflects mortality improvements both before and after the measurement date.

Mortality

Post-retirement disabled mortality:

Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. No provision was made for the future mortality improvement for disabled retirees.

The census data collection date has changed from end-of-year to beginning-of-year. For this switchover year, the June 30, 2013 census data used in the prior valuation is also used as the July 1, 2013 census data for current valuation. The liability results as of June 30, 2014 are based on projecting the ERS obligations determined as of the census data collection date of July 1, 2013 for one year, using roll-forward methods and assuming no liability or losses. Most demographic assumptions used are based on a 2009 experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007. Certain demographic assumptions (termination and employment) were impacted by Act 3 reforms and were revised on the new retirement eligibility and expected future experience.

The investment rate of return of 6.75% reflects the asset allocation for the non-loan portion of the portfolio that was adopted by the ERS during December 2013 (as shown below) and the actuary's capital market assumptions as of June 30, 2014. In addition, the assumption reflects that loans to members comprise approximately 20% of the portfolio and, as provided by the ERS, have an approximate return of 10% with no volatility:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	25%
International Equity	10%
Fixed Income	64%
Cash	1%

The long-term expected rate of return on pension benefits was not provided by ERS.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE N – RETIREMENT PLAN – Continued

6. *Discount rate*

The discount rate used to measure the total pension liability was 4.29% as of June 30, 2014. The asset basis for the date of depletion is the ERS's fiduciary net position. On this basis, the fiduciary net position is exhausted in the 2014-2015 fiscal year. The plan's fiduciary net position was not projected to be available to make all projected future payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan's fiduciary net position is not projected to be sufficient.

7. *Sensitivity of the Municipality's proportionate share of the net pension asset to changes in the discount rate.*

The Municipality's proportionate share of the net pension liability calculated using the discount rate of 4.29% amounts to \$23,222,451. The ERS do not provide information to disclose what the Municipality's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower (3.29%) or 1% point higher (5.29%) than the current rate

8. *Pension plan fiduciary net position.*

Detailed information about the plan's fiduciary net position is not available since the ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2014 under *GASB Statement No. 67* "Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25".

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE O – COMMITMENTS

1. Operating leases

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to \$21,985. Management believes that the summary of the future minimum rental commitments under non-cancelable operating leases with terms exceeding one year is not significant.

2. Construction

As of June 30, 2015 the Municipality has commitments of \$1,433,511 for design, construction, improvements or renovation of certain municipal facilities.

3. Encumbrances

The Municipality has encumbrances outstanding which represent the estimated amount of expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. Outstanding encumbrances as of June 30, 2015 in the general fund represent unassigned amounts that are encumbered and are classified by management as assigned fund balance. Purpose classification follows:

Purpose	General Fund- assigned fund balance
General public works and sanitation	\$ 50,427
Welfare and community development	1,887
Sports, culture and recreation	680
Public safety	1,468
General government and other purposes	26,199
	\$ 80,661

Fund balance of major and other governmental funds (special revenue, capital project and debt service funds) is classified as restricted, some or all of which may be encumbered. Encumbrances of restricted fund balance are not reported separately from this classification because the encumbrance does not further restrict the purpose for which the resources may be used.

NOTE P – CONTINGENCIES

1. Federal and Commonwealth Grants

Projects financed by the Federal and Commonwealth Grants are subject to audits by grantors and other governmental agencies in order to determine that the expenditures comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE Q – CONTINGENCIES

2. Federal and Commonwealth Grants

Projects financed by the Federal and Commonwealth Grants are subject to audits by grantors and other governmental agencies in order to determine that the expenditures comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

3. Litigations

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that would not be covered by insurance. The Municipality recorded an estimated liability for legal settlements not to be covered by insurance of \$28,000 as other long-term debt in the government-wide financial statements since it will not be paid with current available financial resources. However, it is the opinion of the Municipality and the legal counsel that based on their experience, such actions and the potential liabilities will not impair the Municipality's financial position.

NOTE R – RESTATEMENT OF NET POSITION AND FUND BALANCE

The following table disclosed the net change to net position and fund balance at beginning of year as previously reported in the financial statements. The beginning balances have been restated as follows:

<u>Description</u>	<u>Net Position Government - wide Statements</u>	<u>Fund Balance Debt Service Fund</u>
Net position / fund balance at beginning of year, as previously reported	\$ 36,704,390	\$ 2,300,136
Impact of implementation of <u>GASB Statement No. 68</u> - net pension liability as of June 30, 2013 net of deferred outflows of resources for employer contributions for fiscal year 2014	(21,283,869)	-
Correction of error, overstatement of amount due from Commonwealth Government	(52,509)	(52,509)
Net position / fund balance at end of year, as restated	\$ 15,368,012	\$ 2,247,627

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE S – SUBSEQUENT EVENTS

Effective on July 1, 2015, the Commonwealth sales and use tax (“Commonwealth SUT”) increased from a current 6% to a 10.5%, as required by Act No. 72 of May 29, 2015, an amendment to the Puerto Rico Internal Revenue Code of 2011, (“Act No. 72”). The Municipal SUT remain unchanged at 1% for a total SUT of 11.5%. The Act No. 72 also imposes a Commonwealth SUT of 4% to professional and business-to-business services rendered from October 1, 2015 until March 31, 2016.

The Act No. 72 serves as a bridge mechanism to an integrated new tax reform to reach a 10.5 % Value-Added Tax (“VAT”) effective April 1, 2016. On March 8, 2016 the Puerto Rico Department of Treasury issued the Administrative Determination No. 16-04 extending the Act effective date from April 1, 2016 to June 1, 2016. The Commonwealth SUT will continue to apply until May 31, 2016. The municipalities will continue to be allowed to impose and collect the 1% Municipal SUT after the VAT is implemented.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Taxes:				
Property taxes	\$ 2,003,167	\$ 2,003,167	\$ 2,003,167	\$ -
Municipal license taxes	505,000	533,000	555,236	22,236
Sales and use taxes	975,000	985,000	1,014,531	29,531
Intergovernmental	3,887,737	3,887,737	3,888,602	865
Fees, fines and charges for services	1,662,605	1,709,605	1,648,852	(60,753)
Interest	50,000	180,000	182,154	2,154
Other	46,491	96,491	111,712	15,221
Total revenues	<u>9,130,000</u>	<u>9,395,000</u>	<u>9,404,254</u>	<u>9,254</u>
<u>EXPENDITURES:</u>				
Current:				
General government	4,439,505	4,100,157	3,997,056	103,101
Public works and sanitation	2,672,627	2,517,922	2,476,281	41,641
Public safety	815,020	782,205	776,163	6,042
Culture and recreation	515,907	509,567	502,539	7,028
Health	339,565	320,368	320,367	1
Welfare and community development	292,801	240,206	238,688	1,518
Total expenditures	<u>9,075,425</u>	<u>8,470,425</u>	<u>8,311,094</u>	<u>159,331</u>
Excess of revenues over expenditures	54,575	924,575	1,093,160	168,585
<u>Other financing uses:</u>				
Transfers out	(54,575)	(924,575)	(913,159)	11,416
Total other financing uses	<u>(54,575)</u>	<u>(924,575)</u>	<u>(913,159)</u>	<u>11,416</u>
Excess of revenues over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180,001</u>	<u>\$ 180,001</u>

The accompanying notes are an integral part of this required supplementary information.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
JUNE 30, 2015**

NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1991, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget, and the actual results under the budgetary basis of accounting.

The budgetary basis of accounting is different from accounting principles generally accepted in the United States of America (“US GAAP”). Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders or contracts) are considered expenditures when a commitment is made. On a US GAAP basis encumbrances outstanding at year-end are reported in the governmental fund balance sheet as assigned fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of the current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

NOTE B - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
June 30, 2015

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	\$ 180,001
Budget to GAAP differences:	
Non-budgeted funds recorded as revenues for financial reporting purposes:	62,294
Non-budgeted funds recorded as expenditures for financial reporting:	(1,128,492)
Non-budgeted transfers in:	2,213,064
Revenues recorded for financial reporting purposes but not in budgetary basis:	2,605,561
Revenues recorded in budgetary basis purposes but not in financial reporting:	(1,028,782)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	25,486
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(1,699,434)
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	80,577
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(84,353)
Net change in fund balance (GAAP basis):	<u>\$ 1,225,922</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
FISCAL YEAR ENDED JUNE 30, 2015**

**SCHEDULE OF MUNICIPALITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 10 YEARS (A)**

	Fiscal year 2015 (B)
Proportion of the net pension liability	0.07717%
Proportionate share of the net pension liability (c)	\$ 23,222,451
Covered-employee payroll (d)	\$ 3,327,119
Proportionate share of the net pension liability as a percentage of its covered-employee payroll (c)/(d)	697.97%
Plan's fiduciary net position as a percentage of the total pension liability	0.42%

**SCHEDULE OF MUNICIPALITY'S CONTRIBUTIONS
LAST 10 YEARS (A)**

	Fiscal year 2015 (B)
Statutorily required contribution	\$ 370,235
Contributions in relation to the statutorily required contribution (e)	370,235
Contribution deficiency (excess)	\$ -
Covered-employee payroll (f)	\$ 3,327,119
Contributions as a percentage of covered-payroll (e)/(f)	11.13%

The accompanying notes are an integral part of this required supplementary information.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF MUNICIPALITY'S PROPORTIONATE SHARE OF
NET PENSION LIABILITY AND
SCHEDULE OF MUNICIPALITY'S CONTRIBUTIONS
JUNE 30, 2015**

NOTE A – LAST 10 YEARS

The Schedules are intended to show information for ten years. Additional years will be displayed as they become available. The information presented relates solely to the Municipality and not the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities as a whole.

NOTE B – FISCAL YEAR

The data provided in the schedule is based as of the measurement date of the net pension liability, which is as of the prior fiscal year ended June 30, 2014.

SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2015

Line Item No.	Description	14.871
		Housing Choice Vouchers
Balance Sheet		
111	Cash - unrestricted	\$ 18,604
100	Total cash	\$ 18,604
150	Total Current Assets	\$ 18,604
164	Furniture, equipment and machinery - administration	\$ 2,009
166	Accumulated depreciation	\$ (1,808)
160	Total capital assets, net of accumulated depreciation	\$ 201
180	Total Non-current Assets	\$ 201
190	Total Assets	\$ 18,805
300	Total Liabilities	\$ -
508.4	Net Investment in Capital Assets	\$ 201
511.4	Restricted Net Position	-
512.4	Unrestricted Net Position	18,604
513	Total Equity/Net Position	\$ 18,805
600	Total Liabilities and Equity/Net Position	\$ 18,805
Income Statement		
70600-010	Housing assistance payments	\$ 129,785
70600-020	Ongoing administrative fees earned	\$ 24,875
70600-070	Admin fee calculation description	
70600	HUD PHA operating grants	\$ 154,660
71500	Other revenue	\$ 6,520
700	Total Revenue	\$ 161,180
91100	Administrative salaries	\$ 14,088
91500	Employee benefit contributions- administrative	\$ 6,780
91600	Office expenses	\$ 942
91000	Total Operating - Administrative	\$ 21,810
96200	Other general expenses	\$ 545
96000	Total Other General Expenses	\$ 545
96900	Total Operating Expenses	\$ 22,355
97000	Excess Revenue Over Operating Expenses	\$ 138,825
97300-050	All Other	\$ 123,740
97300-041	HAP Portability-out	\$ 9,861
97300	Housing assistance payments	\$ 133,601
97350	HAP Portability-in	\$ 1,869
90000	Total Expenses	\$ 157,825
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ 3,355

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2015

		14,871
Line Item No.	Description	Housing Choice Vouchers
11030	Beginning equity	\$ 15,450
11170-001	Administrative Fee Equity - Beginning Balance	\$ 15,450
11170-010	Administrative Fee Revenue	\$ 24,875
11170-050	Other Revenue	\$ 2,704
		This amount corresponds to the administrative fees earned on the portability-in vouchers administered by the Municipality (\$480) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 13-14 (\$1,869). Checks void in the amount of \$353.50. Includes \$4,004.50 to eliminate an account payable balance. Also, includes \$195.50 of an account receivable balance that was eliminated.
11170-051	Comment For Other Revenue	
11170-060	Total Admin Fee Revenues	\$ 27,579
11170-080	Total Operating Expenses	\$ 22,355
11170-095	Housing Assistance Portability In	\$ 1,869
11170-110	Total Expenses	\$ 24,224
11170-002	Net Administrative Fee	\$ 3,355
11170-003	Administrative Fee Equity - Ending Balance	\$ 18,805
11170-005	Pre-2004 Administrative Fee Reserves	\$ -
11170-006	Post-2003 Administrative Fee Reserves	\$ 17,154
11170	Administrative Fee Equity	\$ 18,805
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ -
11180-010	Housing Assistance Payments Revenues	\$ 129,785
11180-015	Fraud Recovery Revenue	\$ -
11180-020	Other Revenue	\$ 3,816
11180-021	Comment For Other Revenue	
11180-030	Total HAP Revenues	\$ 133,601
11180-080	Housing Assistance Payments	\$ 133,601
11180-100	Total Housing Assistance Payments Expenses	\$ 133,601
11180	Housing Assistance Payments Equity	\$ -
11190-210	Total ACC HCV Units	408
11190-220	Unfunded Units	-
11190-230	Other Adjustments	-
11190	Unit Months Available	408
11210	Unit Months Leased	408

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
June 30, 2015

NOTE A – BASIS OF PRESENTATION

The accompanying financial data schedule (“FDS”) is a trial balance of the financial statements of the Section 8 Housing Choice Voucher Program administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (“PHA”) to the Real Estate Assessment Center (“REAC”), as required by the Uniform Financial Reporting Standards (“UFRS”). REAC is the US Department of Housing and Urban Development (“HUD”) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD. Because the FDS presents only a selected portion of the operations of Municipality, it is not intended to, and does not present, the financial position and changes in net position of the Municipality.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements and is prepared using the accrual basis of accounting.

SINGLE AUDIT SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Direct programs:			
Rural Business Enterprise Grant	10.769	N/A	\$ 42,002
Passed-through program from:			
P.R. Department of Education			
Child and Adult Care Food Program	10.558	CCC-110	22,087
Subtotal U.S. Department of Agriculture			<u>64,089</u>
U.S. Department of Housing and Urban Development			
Direct programs:			
Section 8 Housing Choice Vouchers Program	14.871	N/A	154,660
Passed-through programs from:			
Office of Commissioner of Municipal Affairs:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	AB - 53, FD - 53	607,020
Subtotal U.S. Department of Housing and Urban Development			<u>761,680</u>
U.S. Department of Health and Human Services			
Passed-through programs from:			
P. R. Office of the Ombudsman for the Elderly:			
Special Programs for the Aging, Title III Part D, Disease Prevention and Health Promotion Services	93.043	140213R2, 150249R2	5,423
Aging Cluster:			
Special Programs for the Aging, Title III Part B, Grants for Supportive Services and Senior Centers	93.044	140263R2, 150314R2	33,743
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	140213R2, 150336R2	96,895
Nutrition Services Incentive Program	93.053	140213R2, 150336R2	16,157
Total Aging Cluster:			<u>146,795</u>
P.R. Department of Family - Families and Children Administration:			
Child Care and Development Block Grant	93.575	241-2014-000041, 241-2015-000044	86,895
Subtotal U.S. Department of Health and Human Services:			<u>239,113</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,064,882</u></u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2015**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to, and does not present, the financial position and changes in net position of the Municipality.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

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

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

NOTE C – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	USHUD - Community Development Block Grant Program Fund	Other Governmental Funds
10.769	\$ -	\$ 42,002
10.558	-	22,087
14.228	607,020	-
14.871	-	154,660
93.043	-	5,423
93.044	-	33,743
93.045	-	96,895
93.053	-	16,157
93.575	-	86,895
Total federal awards expenditures:	607,020	457,862
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program:	-	3,164
Non-federal awards expenditures:	-	458,822
Total expenditures, fund statements:	<u>\$ 607,020</u>	<u>\$ 919,848</u>



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

Honorable Mayor and Members of the
Municipal Assembly
Rincón, 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 Municipality of Rincón, Puerto Rico as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Municipality of Rincón, Puerto Rico's basic financial statements, and have issued our report thereon dated March 15, 2016. The report on governmental activities was qualified because we were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows, net pension liability, pension expense, and related note disclosures with respect to its participation in the state employee retirement system pension plan.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Municipality of Rincón, Puerto Rico'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 Municipality of Rincón, Puerto Rico's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipality of Rincón, Puerto Rico's internal control.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Rincón, Puerto Rico'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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



ROMAN TORO & CO., CPA, C.S.P.
LICENSE # 35 - IN FORCE

Yauco, Puerto Rico
March 15, 2016

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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**

Honorable Mayor and Members of the
Municipal Assembly
Rincón, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited Municipality of Rincón, Puerto Rico's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality of Rincón, Puerto Rico's major federal programs for the year ended June 30, 2015. Municipality of Rincón, Puerto Rico'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 Municipality of Rincón, Puerto Rico'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 Municipality of Rincón, Puerto Rico'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 Municipality of Rincón, Puerto Rico's compliance.

Opinion on Each Major Federal Program

In our opinion, Municipality of Rincón, Puerto Rico, 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 programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

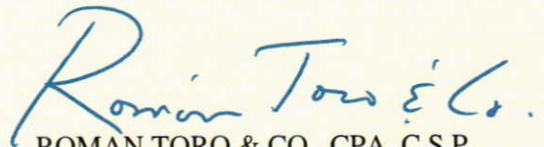
Management of Municipality of Rincón, Puerto Rico, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality of Rincón, Puerto Rico's 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 Municipality of Rincón, Puerto Rico's internal control over compliance.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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 may exist that have not been identified.

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.


ROMAN TORO & CO., CPA, C.S.P.
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Yauco, Puerto Rico
March 15, 2016

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:	<u>Opinion Unit</u>	<u>Type of Opinion</u>
	Governmental Activities	Qualified
	General Fund	Unmodified
	Common Legislature Resolutions	Unmodified
	Debt Service Fund	Unmodified
	USHUD-Community Development Block Grant Program	Unmodified
	CDB \$690,000 Line of credit Ojo de Agua Hotel	Unmodified
	PR Department of Transportation (DTOP)	Unmodified
	Capital Projects – Bonds and Notes Issuance Fund	Unmodified
	Other Governmental Funds	Unmodified

Internal control over financial reporting:

- Significant control deficiency identified? Yes None reported
 - Material weakness (es) identified? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Significant control deficiency identified? Yes None reported
- Material weakness (es) identified? Yes No

Type of auditor's report issued on compliance for Major Programs:

- Unmodified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

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

- Yes No

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant / State Program and Non- Entitlement Grants in Hawaii

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

\$300,000

- Auditee qualified as low-risk auditee? Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2015**

SECTION II – FINANCIAL STATEMENTS FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS

No findings are reported.

END OF SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

Year	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
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(1) Prior Audit Findings, fully corrected or not noted during our audit:

None

(2) Prior Audit Findings, not corrected or partially corrected:

None.

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

None.

(4) Prior Audit Findings, are no longer valid:

None.