

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**  
**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**  
**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE RINCON**  
**AUDITORIA 2001-02**  
**30 DE JUNIO DE 2002**

GENERAL PURPOSE FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT CERTIFIED PUBLIC  
ACCOUNTANTS WITH ADDITIONAL  
REPORTS REQUIRED UNDER THE  
OMB CIRCULAR A-133

MUNICIPALITY OF RINCÓN

JUNE 30, 2002

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## Report of Independent Certified Public Accountants

Mayor and Municipal Legislature  
Municipality of Rincón  
Rincón, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Rincón, Puerto Rico, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the third paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of the Office of Management and Budget Circular A-133 "Audits of States, Local Governments and Non Profit Organizations". Those standards and the OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to form an opinion regarding cash in the general and special revenue fund; due from (to) other funds between general, special revenue and capital project funds; the general fixed assets account group; as reported in the general purpose financial statements because of the inadequacy of accounting records and reports, which do not permit the application of adequate alternative procedures.

As more fully described in Note C (12), the Municipality has not determined an adequate estimate of the solid waste landfill postclosure care costs as required by generally accepted accounting principles. The effect of this departure from U.S. generally accepted accounting principles on the accompanying general purpose financial statements is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had records described in third paragraph been adequate, and for the effects of not including an adequate estimate of the solid waste landfill postclosure care costs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Rincón, Puerto Rico, as of June 30, 2002, and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2002 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Municipality of Rincón, Puerto Rico, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget and Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the general purpose financial statements. Such information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general purpose financial statements taken as a whole.



*Rodriguez, Rivera & Toro*

Municipality of Rincón

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2002

	Governmental Funds				Account groups		Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Project	General Fixed Assets	General Long- Term Debt	
<b>ASSETS AND OTHER DEBITS</b>							
Cash and cash equivalents (note C1)	\$ 670,106	\$ 1,679,100	\$ -	\$ -	\$ -	\$ -	\$ 2,349,206
Receivables (net where applicable of allowance for uncollectible)							
State Governmental Agencies	249,724	454,624	-	-	-	-	704,349
License tax (note C9)	78,172	-	-	-	-	-	78,172
Due from other funds (note C2)	322,623	1,355,100	-	163,313	-	-	1,841,036
Restricted assets							
Cash (note C3)	168,688	155,104	359,551	1,689,187	-	-	2,372,530
Property, plant and equipment (note C4)	-	-	-	-	10,246,124	-	10,246,124
Amount available in debt service fund	-	-	-	-	-	359,551	359,551
Amount to be provided for retirement of general and special obligation bonds and notes	-	-	-	-	-	3,295,449	3,295,449
Amount to be provided for retirement of other long-term debt	-	-	-	-	-	3,084,764	3,084,764
<b>Total assets and other debits</b>	<b>\$ 1,489,314</b>	<b>\$ 3,643,928</b>	<b>\$ 359,551</b>	<b>\$ 1,852,500</b>	<b>\$ 10,246,124</b>	<b>\$ 6,739,764</b>	<b>\$ 24,331,181</b>

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Rincón

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2002

	Governmental Funds				Account groups		Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Project	General Fixed Assets	General Long- Term Debt	
<b>LIABILITIES</b>							
Vouchers and accounts payable	\$ 218,799	\$ 173,910	\$ -	\$ -	\$ -	\$ -	\$ 392,709
Claims payable (note D2)	130,209	-	-	-	-	-	130,209
Due to state governmental agencies (note C5)	171,088	-	-	-	-	-	171,088
Accrued liabilities	46,034	-	-	-	-	-	46,034
Deposits payable	72,190	-	-	-	-	-	72,190
Due to other funds (note C2)	1,518,413	322,623	-	-	-	-	1,841,036
Deferred revenues (note C6)	531,517	67,840	-	-	-	-	599,356
General and special obligations bonds and notes (note C7)	-	-	-	-	-	3,655,000	3,655,000
Other long-term debt (note C7)	-	-	-	-	-	3,084,764	3,084,764
	<u>2,688,249</u>	<u>564,373</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,739,764</u>	<u>9,992,386</u>
<b>Total liabilities</b>							
Contingencies (note D)							
<b>FUND EQUITY AND OTHER CREDITS</b>							
Investment in general fixed assets	-	-	-	-	10,246,124	-	10,246,124
Fund balance							
Reserved for debt service	-	-	359,551	-	-	-	359,551
Reserved for other specific purposes	168,688	-	-	-	-	-	168,688
Unreserved							
Designated for subsequent years expenditures	-	3,079,555	-	1,852,500	-	-	4,932,055
Undesignated	(1,367,623)	-	-	-	-	-	(1,367,623)
Total fund equity and other credits	<u>(1,198,935)</u>	<u>3,079,555</u>	<u>359,551</u>	<u>1,852,500</u>	<u>10,246,124</u>	<u>-</u>	<u>14,338,795</u>
<b>Total liabilities, fund equity and other credits</b>	<u>\$ 1,489,314</u>	<u>\$ 3,643,928</u>	<u>\$ 359,551</u>	<u>\$ 1,852,500</u>	<u>\$ 10,246,124</u>	<u>\$ 6,739,764</u>	<u>\$ 24,331,181</u>

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Rincón

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

Year ended June 30, 2002

	Governmental Funds				Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Revenues</b>					
Property taxes (note C8 )	\$ 1,169,737	\$ -	\$ 512,413	\$ -	\$ 1,682,149
Municipal license taxes, licenses and permits (note C9 )	617,976	-	-	-	617,976
Intergovernmental (note C10 )	3,914,506	3,106,544	-	2,331	7,023,381
Rental income of properties	281,749	-	-	-	281,749
Fines and forfeitures	2,450	-	-	-	2,450
Interest	43,684	-	7,181	-	50,865
Other	72,761	-	-	-	72,761
<b>Total revenues</b>	<b>6,102,862</b>	<b>3,106,544</b>	<b>519,594</b>	<b>2,331</b>	<b>9,731,330</b>
<b>Expenditures</b>					
General government	2,076,638	961,144	-	7,501	3,045,283
Public safety	587,877	334,852	-	-	922,729
Highway and streets	646,788	178,975	-	-	825,763
Sanitation and public works	1,509,638	317	-	-	1,509,955
Health	245,819	-	-	-	245,819
Welfare	10,994	393,236	-	-	404,230
Culture and recreation	327,806	-	-	-	327,806
Education	10,000	531	-	-	10,531
Capital projects	-	1,283,899	-	-	1,283,899
Other	132,341	2,365	31,674	150	166,530
Debt service					
Principal	-	-	502,560	-	502,560
Interest	-	-	126,040	-	126,040
<b>Total expenditures</b>	<b>5,547,899</b>	<b>3,155,319</b>	<b>660,274</b>	<b>7,651</b>	<b>9,371,144</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>554,962</b>	<b>(48,776)</b>	<b>(140,680)</b>	<b>(5,320)</b>	<b>360,187</b>
<b>Other financing sources (uses)</b>					
Proceeds from General Obligation Bonds (note C7 )	-	465,000	-	1,660,000	2,125,000
Liabilities expected to be refinanced	170,995	-	-	-	170,995
Operating transfers in	8,147	-	243,569	-	251,715
Operating transfers out	243,569	-	8,147	-	251,715
<b>Total other financing sources (uses)</b>	<b>(64,427)</b>	<b>465,000</b>	<b>235,422</b>	<b>1,660,000</b>	<b>2,295,995</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<b>490,535</b>	<b>416,224</b>	<b>94,742</b>	<b>1,654,680</b>	<b>2,656,181</b>
<b>Fund balance at beginning of year</b>	<b>(1,689,470)</b>	<b>2,663,331</b>	<b>264,809</b>	<b>197,819</b>	<b>1,436,490</b>
<b>Fund balance at end of year</b>	<b>\$ (1,198,935)</b>	<b>\$ 3,079,555</b>	<b>\$ 359,551</b>	<b>\$ 1,852,500</b>	<b>\$ 4,092,671</b>

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Rincón

COMBINED STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (BUDGET-STATUTORY) GENERAL AND DEBT SERVICE FUND TYPES

Year ended June 30, 2002

	General Fund		Variance Favorable (Unfavorable)	Debt Service		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
<b>Revenues</b>						
Property taxes	\$ 978,215	\$ 1,354,425	\$ 376,210	\$ 321,581	\$ 512,413	\$ 190,832
Municipal license taxes, licenses and permits	536,862	617,976	81,114	-	-	-
Intergovernmental	3,768,747	3,714,927	(53,820)	-	-	-
Rental income of properties	270,000	264,769	(5,231)	-	-	-
Fines and forfeitures	6,000	2,450	(3,550)	-	-	-
Interest	90,000	51,830	(38,170)	-	7,181	7,181
Other income	42,000	72,761	30,761	-	-	-
Total revenues	5,691,824	6,079,137	387,314	321,581	519,594	198,013
<b>Expenditures</b>						
General government	1,953,273	1,834,798	118,475	-	-	-
Public safety	599,341	587,877	11,465	-	-	-
Highway and streets (note B)	787,526	646,788	140,738	-	-	-
Sanitation and public works (note B)	1,569,057	1,539,723	29,334	-	-	-
Health	245,819	245,819	-	-	-	-
Welfare	11,000	10,994	6	-	-	-
Culture and recreation	330,640	327,806	2,834	-	-	-
Education	10,000	10,000	-	-	-	-
Other	72,159	56,647	15,512	-	31,674	(31,674)
Debt service						
Principal	-	-	-	321,581	302,000	19,581
Interest	-	-	-	-	83,031	(83,031)
Total expenditures	5,578,815	5,260,451	318,364	321,581	416,705	(95,124)
Excess (deficiency) of revenues over expenditures	113,009	818,686	705,678	-	102,889	102,889
<b>Other financing sources (uses)</b>						
Operating transfers in	-	-	-	-	-	-
Operating transfers out	113,009	113,009	-	-	8,147	(8,147)
Total other financing sources (uses)	(113,009)	(113,009)	-	-	(8,147)	(8,147)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ 705,678	\$ 705,678	\$ -	\$ 94,742	\$ 94,742

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of Rincón was founded in the year 1770. The Municipality is comprised 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 members of the Municipality Legislature. The Municipality provides benefits to the community such as: health, public works, environmental control, human resources, education, public security, housing and community development, culture and recreation, and other general and administrative services.

The financial statements of the Municipality have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) 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. A summary of the Municipality's significant accounting policies consistently applied in the preparation of the accompanying general purpose financial statements follows:

1. *Financial reporting entity*

The financial reporting entity included in this report consists of the general purpose financial statements of the Municipality of Rincón (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The basic criteria for deciding financial accountability are anyone of the following:

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and
- c. The primary government can impose its will on the potential component unit and/or
- d. A financial benefit/burden exists between the primary government and the potential component unit.

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

*2. Basis of presentation*

The financial transactions of the Municipality are recorded in individual funds and account groups. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. The various funds and account groups are reported by generic classification within the financial statements. Amounts in the "Total (Memorandum Only)" columns in the general purpose financial statements represent a summation of the financial statement line items of the fund types and account groups and are presented for information purposes only. This total includes fund types and account groups that use different basis of accounting and interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Total (Memorandum Only)" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the Municipality. The following fund types and account groups are used by:

*a. Governmental Funds*

Governmental Funds are those through which most governmental functions of the Municipality are financed. The acquisition, uses, and balances of the Municipality expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position rather than upon net income determination. The following are the Municipality's Governmental Fund Types:

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**General Fund.** The General Fund is the general operations fund of the Municipality. It is used to account for all financial resources except those required to be accounted in another fund.

**Special Revenue Funds.** Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

**Debts Service Fund.** Debts Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Capital Projects Funds.** Capital Projects Funds is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

*b. Accounts Groups*

Accounts Groups are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debts. The following are the Municipality's accounts groups:

**General Fixed Assets Accounts Group.** This group of accounts is established to maintain control and cost information account for all fixed assets of the Municipality. General Fixed Assets are recorded as expenditures of the various Municipality funds at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Accounts Group. Such assets include land, building, building improvements, furniture and equipment. The cost of certain roads, streets and sidewalks, bridges, curbs and gutters, drainage systems, lighting systems and similar assets are capitalized. No depreciation is provided on General Fixed Assets.

Equipment is stated at cost, and all land and buildings are recorded at estimated (bid award) values. Donated fixed assets are valued at their estimated fair market value on donation date.

**General Long-Term Debt Accounts Group.** This group of accounts is established to account for all long-term debts of the Municipality. Because of their spending measurement focus, expenditures recognition for governmental fund types is limited to exclude amounts represented by non current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Accounts Group.

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*3. Basis of accounting*

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

*a. Governmental Funds*

These funds use the modified accrual basis of accounting. Under this basis of accounting revenues are recognized when susceptible to accrual; that is, when they are measurable and available. Available is defined as expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Intergovernmental revenues are considered earned and are accrued simultaneously with the grant expenditures unless such recognition is prohibited by the grant requirements, amounts represent unrestricted receipts or amounts are revocable only for failure to comply with prescribed compliance requirements. In such cases revenues are usually recognized as the time of receipt.

Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available. Expenditures are generally recognized when the related liability is incurred. Exceptions to this rule are: (1) accumulated unpaid vacations, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt in the debt service funds, which are recorded as expenditures when due, except for principal and interest due in July 1 of the following fiscal year, which is recorded when resources are available in the debt service funds.

The Municipality reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received before the Municipality has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

4. *Budgetary data*

a. *Budget policy*

Budgets are prepared for General and Debts Service Funds following the requirements of the Municipal Law of 1981 as amended. Although all operating expenses and expenditures are allocated to departmental operating budgets, certain items are not considered to be subject to direct control at the department level. These include: terminal leave payments, payroll taxes, pension costs, court costs and settlements, telephone and electricity expenses and liability, workers compensation and property insurance premiums. Budget amendments, which require a change in total appropriations of any department, are approved by the Municipality Legislature. Certain budget transfers within the limitations and restriction of the Municipal Law can be approved by the Executive Branch or by the Legislature Branch. The budgets are prepared on a budgetary (statutory) basis of accounting, which is different from GAAP, and reflect encumbrance accounting as described below. In instances where budget revenues appropriations have been revised during the year, budget amounts presented in the financial statements and schedules represent final revenues and authorization amounts. Encumbrance appropriates lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year end. Formal budgetary information is employed as a management control device during the year for the General and Debts Service Funds. Formal budgetary integration is not employed for Special Revenues and Capital Projects Funds because effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

b. *Encumbrances*

On a GAAP basis, encumbrances outstanding at year end are reported in the general purpose financial statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary (statutory) basis, encumbrances are recorded as expenditures of current year.

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. *Receivables*

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

6. *Inventories*

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure in the appropriate fund but the year-end inventory is not recorded in the combined balance sheet.

7. *Insurance coverage*

The Puerto Rico Department of Treasury acts as an agent, obtaining and determining the coverage for the cities and municipalities of Puerto Rico. The coverage for the Municipality of Rincón consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Payment of the Municipality's insurance premiums are withheld quarterly from property tax advances and subsidies sent to the Municipality by the Municipal Revenue Collection Center.

8. *Compensated absences*

The Municipality's employees accumulate vacation and sick leave based on continuous service. The vacation and sick leave for employees are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay 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 pay is liquidated to employees with 10 years or more service up to the maximum number of days. The amount of vacations leave is accrued if earned based on services already performed by employees and if it is probable that will be paid in a future period.

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

**NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Amount of sick leave is accrued based on all vesting amounts for which payment is probable and on accumulated benefits as of the balance sheet date. The accrual of compensated absences includes estimated payments that are related to payroll. The accrued expenditures for accumulated vacations and sick pay have been recorded in the General Long-Term Debts Account Group since it is anticipated that none of the liability already accrued will be liquidated with expendable available resources. Vacations and sick leave, when paid, are recorded as expenditures in the General Fund.

*9. Interfund transactions*

Operating transfers are reported when incurred as operating transfers in by the recipient fund and as operating transfers out by the disbursing fund.

*10. Use of estimates*

The preparation of the general purpose financial statement in accordance with U.S. generally accepted accounting principles 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 general purpose financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

*11. Fund balance*

*a. Reservation of fund balance*

Represent portions of the fund balance that are legally segregated for a specific future use or are not appropriable for expenditure. The Municipality has the following reservations of fund balance:

Encumbrances: Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods when the goods or services are received.

Debt Service: Represents net assets available to finance future debt service payments.

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

*b. Unreserved fund balance designations*

Represent tentative plans or commitments of governmental resources.

*12. Future adoption of accounting pronouncements*

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

	<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
34	Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments	June 30, 2003
37	Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 20 and 34.	June 30, 2003
38	Certain Financial Statement Note Disclosures	June 30, 2003
39	Determining Whether Certain Organizations Are Component Units-an amendment of GASB Statement No. 14	June 30, 2004

The impact of these statements on the Municipality's general purpose financial statement has not yet been determined.

NOTE B - RECONCILIATION OF DIFFERENCES BETWEEN BUDGET STATUTORY BASIS TO GAAP

The Municipality's Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types has been prepared in accordance with GAAP and the Combined Statement of Revenues and Expenditures Budget and Actual (Budget-Statutory) - General and Debt Service Fund has been prepared on the budgetary basis, which is different from GAAP.

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE B - RECONCILIATION OF DIFFERENCES BETWEEN BUDGET  
STATUTORY BASIS TO GAAP - Continued

The following reconciles the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses in both statements:

Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (Budgetary - statutory basis)	\$ 705,678
Add: Expenditures recognized under Budgetary-statutory basis but not accrued under GAAP basis by the Municipality	70,084
Revenues recognized under GAAP basis but not under budgetary basis	202,866
Less: Expenditures accrued under GAAP basis but not budgeted by the Municipality during current period	<u>(488,093)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 490,535</u>

NOTE C - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

1. *Cash and cash equivalents*

The Municipality follows the practice of pooling cash of all funds except for restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits, which as of June 30, 2002 amounts to \$500,000. Cash and cash equivalents include investments with original maturity of ninety days or less. The method of allocating interest earned on pooled cash investments among governmental fund types provides that, unless otherwise restricted, all interest is credited to the General Fund. Deposits were with the contracted depository bank in interest bearing accounts, which were secured at the balance sheet date by FDIC coverage and by pledged Puerto Rico and U.S. Governmental Securities held by Puerto Rico Treasury Department in its Trust Division in the name of the depository bank.

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

NOTE C - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

2. *Due from (to) other funds*

The amount presented as due from (to) other funds represent cash pertaining to other funds pooled in the general fund bank account and interfunds transfers and/or borrowings between funds.

3. *Restricted assets-cash*

Restricted cash balance in the special revenue and capital project fund represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Governmental Development Bank of Puerto Rico or a federal government instrumentality. Cash balance recognized in the debt service fund represent the undisbursed balance of property tax collections, which are restricted for the repayment of the Municipality's general and special obligation bonds and notes. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payor of the Municipality's bonds and notes issued in accordance with the law. Interest earned by this sinking fund during the fiscal year 2001-2002 amounted to \$7,181.

4. *Property, plant and equipment*

A summary of the General Fixed Assets Accounts Group transactions follows:

	Real Estate	Equipment	Construction in progress	Total
Balance at June 30, 2001	\$ 4,783,499	\$ 3,950,586	\$ 858,479	\$ 9,592,564
Additions	-	653,560	-	653,560
Balance at June 30, 2002	<u>\$ 4,783,499</u>	<u>\$ 4,604,146</u>	<u>\$ 858,479</u>	<u>\$ 10,246,124</u>

5. *Due to governmental entities*

The Municipality's debts with governmental entities as of June 30, 2002 follow:

Puerto Rico Aqueduct and Sewer Authority	\$ 45,095
Puerto Rico Department of Labor-Unemployment benefits paid in behalf of the Municipality	93,283
Puerto Rico Retirement System Administration	32,710
	<u>\$ 171,088</u>

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

NOTE C - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

6. *Deferred Revenues*

The amounts presented as deferred revenues in the general fund include the following:

Municipal license taxes (note D9)	\$ 316,293
Municipal Revenue Collection Center (note D8)	126,032
Puerto Rico Electric Power Authority	<u>89,192</u>
	<u>\$ 531,517</u>

7. *Long-term debts*

a. *General and special obligation bonds and notes*

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2002 amounted to \$3,655,000. All these obligations are serviced by the Governmental Development Bank of Puerto Rico (a governmental agency) maturing at various dates. The Commonwealth Government is obligated to levy and collect the taxes for payment of principal and interest on the bonds. A sinking fund has been established for the bonds at the Governmental Development Bank whereby sufficient funds must be set aside to redeem the bonds in minimum annual principal and interest amounts. Principal and interest payments of long term debt issued to finance operations of the general fund are made through retentions to intergovernmental revenues by the Municipal Revenue Collection Center.

A detail of the general and special obligation bonds and notes as of June 30, 2002 follows:

Original Amount	Description	Maturity	Rate	Outstanding
\$ 66.000	Public Improvement Bond	January 1 <sup>st</sup> , 2003	5.00%	\$ 3.000
721.000	Public Improvement Bond	January 1 <sup>st</sup> , 2017	5.00%	557.000
75.000	General Obligation Bond	July 1 <sup>st</sup> , 2005	Variable	30.000
705.000	Municipal General Obligation Note	July 1 <sup>st</sup> , 2004	Variable	270.000
910.000	Special Obligation	July 1 <sup>st</sup> , 2010	Variable	775.000
465.000	Municipal General Obligation Note	July 1 <sup>st</sup> , 2006	5.00%	385.000
1,660.000	Municipal General Obligation Bond	July 1 <sup>st</sup> , 2026	5.00%	<u>1,635.000</u>
				<u>\$ 3,655.000</u>

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

NOTE C - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

The annual requirements to amortize all long-term obligations outstanding other than the liability for accumulated vacations and sick leave, municipal landfill obligation, unemployment benefits and debt to Puerto Rico Electric Power Authority as of June 30, 2002 are as follows:

Maturing at June 30,	General and Special Obligation Bonds and Notes		Non exonerated property tax Advances
	Principal	Interest	
2003	\$ 359,000	\$ 212,300	\$ 10,015
2004	382,000	220,775	10,015
2005	258,000	193,350	10,015
2006	260,000	174,575	10,015
2007	171,000	155,725	10,015
Thereafter	2,225,000	1,309,690	21,705
	<u>\$ 3,655,000</u>	<u>\$ 2,266,415</u>	<u>\$ 71,780</u>

b. *Other long-term debts*

Other long-term debts are comprised of the following:

Municipal Revenue Collection Center (CRIM) (note C8)	\$ 954,822
Judgements and other claims (note D2)	804,116
Compensated absences (note A8)	629,624
Puerto Rico Department of Labor (Unemployment benefits paid by the Commonwealth of Puerto Rico in behalf of the Municipality)	453,427
Municipal Revenue Collection Center (CRIM) - Prior years property tax doubtful accounts expected to be refinanced through long-term debt	170,995
Puerto Rico Department of Treasury-Property taxes (note C8)	71,780
	<u>\$ 3,084,764</u>

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

NOTE C - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

c. *Changes in general long-term debts*

	Balance at June 30, 2001	Additions	Retirements	Balance at June 30, 2002
General and special obligation bonds and notes	\$ 1,902,000	\$ 2,125,000	\$ 372,000	\$ 3,655,000
Other long-term debts	2,327,702	1,266,592	509,530	3,084,764
Total	<u>\$ 4,229,702</u>	<u>\$ 3,391,592</u>	<u>\$ 881,530</u>	<u>\$ 6,739,764</u>

As of June 30, 2002 the Municipality has entered into an agreement with the Municipal Revenue Collection Center (CRIM) to refinance the prior years property tax doubtful accounts, which amounted to \$170,995 on a long-term basis. It has demonstrated its intentions and its ability to consummate the transaction by an agreement with the CRIM which does not expire within one year from the date of the combined balance sheet, under the provision of Law No. 146 of October 11, 2001. The refinancing will be done through a special loan to be repaid from .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. The financing agreement was authorized by the Municipal Legislature of Rincón on Resolution No. 45 of March 27, 2002. Accordingly, the amount of \$170,995 will not require the use of available financial resources and has been classified as other long-term debt.

g. *Property taxes*

The Municipal Revenue Collection Center (CRIM) (a state governmental agency) is responsible for the assessment, collection and distribution of real and personal property taxes in accordance with the Municipal Property Tax Law (Law 83 of August 1991). The tax levied on property is determined by the Municipal Government based on limits established by the Commonwealth Legislature. 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<sup>th</sup> of each year. Real property is assessed by the CRIM. The tax is general assessed on January 1<sup>st</sup> on all taxable property located within the Municipality.

For personal property the tax is due with the return filed on or before May 15<sup>th</sup>. Taxes on real property may be paid on two equal installments, July 1<sup>st</sup> and January 1<sup>st</sup>. Property taxes are recorded as revenues by the Municipality in the year of receipt.

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

NOTE C - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

As of June 30, 2000 the Municipality had a net payable to the CRIM of \$954,822 which was recorded as other long term debt in the general long-term debt accounts group. The Municipality refinanced this debt on a long-term basis under the provision of Law No. 42 of January 26, 2000, which was created to permit the CRIM to recover the accumulated debt for this concept from the Municipalities of Puerto Rico. The refinancing was done through a special loan to be repaid from .48% of the net increase of subsidiary provided by the Central Government to the Municipality under the referred law. The financing agreement was authorized by the Municipal Legislature of Rincón on Resolution No. 7 of August 1, 2001. Under the provisions of Law No. 146 of October 11, 2001 the Municipal Legislature, through Resolution No. 45 of March 27, 2002, requested the CRIM to restructure this transaction by increasing loan term from 10 years to 30 years. See related note E.

For the fiscal year 2001-02 the CRIM performed a liquidation and determined that the Municipality has a net receivable of \$126,032 which is recorded as deferred revenue since it is measurable but not available as required by U.S. generally accepted accounting principles.

9. *Municipal license taxes, licenses and permits*

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 based generally on volume of business or gross sales. The Municipal license tax return should be submitted on April 15<sup>th</sup>. If the tax is paid within the filing date a discount is allowed. If it is not paid on the filing date it can be paid in two equal installments (July 1<sup>st</sup> and January 1<sup>st</sup> following April 15<sup>th</sup> filing due date), but the discount is not allowed. As required by generally accepted accounting principles, a license tax receivable and a corresponding deferred revenue for the same amount is recognized in the general fund based on taxes earned as of June 30, 2002, estimated to be collectible in year 2002-2003, but not currently available for a total amount of \$78,173. In addition, amounts collected in advance, totaling \$238,120 and pertaining to next fiscal period, are reported as deferred revenue in the general fund. Total deferred revenue for license taxes amounts to \$316,293.

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE C - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

10. *Intergovernmental revenues*

Intergovernmental revenues in the General Fund are comprised of subsidies received from the Commonwealth of Puerto Rico and amounts received from state agencies as compensation in lieu of tax and in the Special Revenue Fund of federal and state governmental grants.

11. *Retirement plan*

a. *Plan description*

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and nonoccupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program. The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE C - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

The new program is a defined contribution plan, which consist of a savings account for each system participant. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employee's contributions (9.275% of the employee's salary) will be used to kind the current plan.

Under the new program the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

*b. Funding policy*

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer's and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>2000 Reform</u>
2002	<u>\$ 125,832</u>	<u>\$ 47,435</u>
2001	<u>\$ 145,798</u>	<u>N/A</u>
2000	<u>\$ 159,501</u>	<u>N/A</u>

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

NOTE C - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

12. *Municipal Solid Waste Landfill Closure and Postclosure Care Costs*

The Municipality discontinued its landfill operations and ceased to accept solid waste in April 1994. State and Federal Laws and Regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance functions at the landfill site for thirty years after closure. The closure care procedures were assumed and completed by the Municipality. The postclosure care costs has not been determined and accounted as required by U.S. generally accepted accounting principles as of June 30, 2002.

NOTE D - CONTINGENCIES

1. *Federal and State grants*

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. The final outcome of this matter is indeterminable. It is the Municipality's opinion that no other unrecorded liabilities will arise from audits previously performed or to be performed.

2. *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 will not be covered by insurance. One of the Municipality's legal counsels informed that in one case there is a probability of an unfavorable outcome for a total amount of \$32,675 which is accrued in the general long-term debt account group. In relation with settled cases not to be covered by insurance, the Municipality accrued \$130,209 in the general fund and \$771,441 in the general long-term debt account group. 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.

Municipality of Rincón

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

June 30, 2002

NOTE E - SUBSEQUENT EVENTS

As of June 30, 2000 the Municipality had a net payable to the CRIM of \$954,822 which was recorded as other long term debt in the general long-term debt accounts group. The Municipality refinanced this debt on a long-term basis under the provision of Law No. 42 of January 26, 2000, which was created to permit the CRIM to recover the accumulated debt for this concept from the Municipalities of Puerto Rico. On November, 2002 the Municipal Revenue Collection Center (CRIM) informed the Municipality that, after an audit performed to those prior years liabilities, the correct debt amount totals \$476,395. The Municipal Legislature, through Resolution No. 18 of November 27, 2002, approved the new debt amount and its corresponding restructuring.

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**SUPPLEMENTAL INFORMATION**

## Municipality of Rincon

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number (Note B)	Pass-Through Grantor's Number (Note C)	Expenditures (Note A)
<b><u>U.S. Department of H.U.D.</u></b>			
Major Program:			
Passed through the Office of Commissioner of Municipal Affairs: Community Development Block Grant - State's Program	14 228	AB-53 FD-53	\$ 824,985
Nonmajor Program:			
Direct Program:			
Section 8 Housing Choice Vouchers	14 871	N/A	126,018
			<u>951,003</u>
<b><u>U.S. Department of Agriculture.</u></b>			
Nonmajor Program:			
Passed through the P.R. Department of Education: Child and Adult Care Food Program	10 558	N/AV	17,056
<b><u>Federal Emergency Management Agency</u></b>			
Nonmajor Program:			
Passed through the Puerto Rico Governor Office: (Governor's Authorized Representative-GAR) Public Assistance Grants	83 544	DR-PR-1247	11,638
<b><u>U.S. Department of Justice.</u></b>			
Nonmajor Programs:			
Passed through the P.R. Department of Justice: Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16 580	99-DB-UA1-01 99-DB-UCA-01	260,461
Local Law Enforcement Block Grant	16 592	98LBVX0208 98LBVX0309 2000LBVX1085	2,624
			<u>263,085</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
Nonmajor Program:			
Passed through the P.R. Department of Family - Families and Children Administration: Child Care and Development Block Grant	93 575	123-2000-000-487 123-2002-000-316	140,797
Nonmajor Program:			
Passed through the Puerto Rico Governor Office ( Oficina de Asuntos de la Vejez): Special Programs for the Aging Tittle III Part B Grants for Supportive Services and Senior Centers	93 044	N/AV	23,536
Nonmajor Program:			
Passed through the P.R. Department of Family: Temporary Assistance for Needy Families	93 558	2000-675	18,896
			<u>183,229</u>
<b><u>U.S. Department of Labor</u></b>			
Nonmajor program:			
Passed through the Northwestern Consortium: WIA Youth Activities	17 259	2001-000503	24,369
Total federal awards expenditures			<u>\$ 1,450,380</u>

The accompanying notes are an integral part of this schedule.

Municipality of Rincón

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year ended June 30, 2002

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government and Nonprofit Organizations.

**NOTE B - FEDERAL CFDA NUMBER**

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.

**NOTE C - PASS -THROUGH GRANTOR'S NUMBER**

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 federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

Municipality of Rincón

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year ended June 30, 2002

**NOTE D - RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE GENERAL PURPOSE FINANCIAL STATEMENTS**

<u>Description</u>	<u>Special Revenue Fund</u>
14.228	\$ 824,985
14.871	126,018
10.558	17,056
83.544	11,638
16.580	260,461
16.592	2,624
93.575	140,797
93.558	18,896
93.044	23,536
17.259	<u>24,369</u>
Total federal awards expenditures:	1,450,380
Total state funds awards expenditures and other nonfederal expenditures:	<u>1,704,939</u>
Total expenditures, general purpose financial statements	<u><u>\$ 3,155,319</u></u>

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

Mayor and Municipal Legislature  
Municipality of Rincón  
Rincón, Puerto Rico

We have audited the general purpose financial statements of the Municipality of Rincón, as of and for the year ended June 30, 2002, and have issued our report thereon dated December 12, 2002 which is qualified because we were unable to form an opinion regarding cash in the general and special revenue fund; due from (to) other funds between general, special revenue and capital project funds; the general fixed assets account group; as reported in the general purpose financial statements because of the inadequacy of accounting records and reports, which do not permit the application of adequate alternative procedures; and for the effects of not determining a reasonable estimate of the solid waste landfill postclosure care costs. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

*Compliance*

As part of obtaining reasonable assurance about whether Municipality of Rincón's financial statements are free of material misstatement, we performed a test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance that are required to be reported under Government Auditing Standards. We also noted certain immaterial instances of non-compliance that we have reported to the management of the Municipality of Rincón in a separate letter dated December 12, 2002.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered Municipality of Rincón's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Municipality of Rincón's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2002 II-1 and 2002 II-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2002 II-1 and 2002 II-2 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of Municipality of Rincón on a separate letter dated December 12, 2002.

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



Rodriguez, Rileen E. Toro MP

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

Mayor and Municipal Legislature  
Municipality of Rincón  
Rincón, Puerto Rico

*Compliance*

We have audited the compliance of Municipality of Rincón with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Municipality of Rincón's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Rincón's management. Our responsibility is to express an opinion on Municipality of Rincón's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Rincón's compliance with those requirements.

In our opinion, the Municipality of Rincón complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

*Internal Control Over Compliance*

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, on our judgment could adversely affect the Municipality of Rincón's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2002 III-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that reportable condition described in item 2002 III-1 is not a material weakness. We also noted other matters involving the internal control over compliance that we have reported to the management of Municipality of Rincón in a separate letter dated December 12, 2002.

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



*Rodriguez, Rivera & Toro*

Municipality of Rincón

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2002

I. Summary of audit results:

**Part I - Financial Statements**

1. Type of audit report:  Unqualified opinion  Qualified opinion  
 Adverse opinion  Disclaimer of opinion
2. Reportable conditions reported:  Yes  No
3. Reportable conditions reported as a material weakness:  Yes  No
4. Material noncompliance disclosed:  Yes  No

**Part II - Federal Awards**

1. Reportable conditions reported:  Yes  No
2. Reportable conditions reported as a material weakness:  Yes  No
3. Type of report on compliance for major programs:  Unqualified opinion  Qualified opinion  
 Adverse opinion  Disclaimer of opinion
4. Audit findings required to be reported under Section 510(a) of Circular A - 133:  Yes  No
5. Major programs:
- | <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u>           |
|-----------------------|---|
| 14.228                | Community Development Block Grant - State's Program |
6. Dollar threshold used to distinguish Type A and Type B programs:  \$300,000  \$3,000,000  
 \$30,000,000
7. Low-risk auditee:  Yes  No

Municipality of Rincón

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS:

Reference number 2002 II-1

*Area: Property, plant and equipment*

Condition and criteria:	<p>The Municipality has not established adequate controls and procedures to assure the completeness, existence and valuation of fixed assets inventories. Our tests disclosed the following:</p> <ul style="list-style-type: none"><li>a. The computerized subsidiary records maintained by the Municipality do not reconcile with the amounts reported in the general purpose financial statements by a significant amount due to valuation and completeness deficiencies on fixed assets balances and records maintained by the Municipality.</li><li>b. There are no established procedures to account for constructions in progress.</li><li>c. A complete physical inventory of all fixed assets including buildings, land, land improvements and infrastructure has not been performed and reconciled with fixed assets records.</li></ul>
Cause and effect:	<p>No proper controls and procedures over fixed assets inventories. Fixed assets amounts presented in the general purpose financial statements can not be adequately supported.</p>
Recommendation:	<p>A complete review of the fixed assets area should be done including an adequate fixed assets physical inventory, a reconciliation of subsidiary records with the amounts reported in the general purpose financial statements and establishment of controls to assure the completeness and valuation of fixed assets.</p>

Municipality of Rincón

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS - Continued:

Area: Accounting records and reports:

Reference number: 2001 II-2

Condition and criteria: Our audit revealed the Municipality's failure to properly implement established internal controls and procedures to maintain complete, accurate and reliable set of accounting records and reports.

- a. The Municipality failed to maintain an adequate general ledger record to post and register its financial transactions. The Municipality has not established a complete set of manual accounting records properly balanced and has not established procedures to reconcile with the computerized accounting system. The general purpose financial statements has been prepared from other alternative sources, including manual subsidiary records and reports.
- b. There are no adequate controls over transactions recording on the Form 4(a) Monthly Cash Report since previous years. Several accounts related to general fund and state and federal grants accounts (as for example Section 8, Child Care, Edward Byrne, COPS, Local Law Enforcement and TANF) related to special revenue and capital project funds disclosed deficit or inappropriate cash ending balances. This situation is caused by excess and erroneous costs charged, interfund loans or advance payments not reimbursed or adjusted. As a result, amounts included in certain reports to grantor agencies (for example for Child Care and Edward Byrne funds) can not be verified or reconciled. A complete review of Form 4(a) Cash Report balances is recommended to correct and report appropriate revenues, expenditures and cash cumulative balances.

Municipality of Rincón

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS - Continued:

Area: Accounting records and reports: (Continued)

Reference number: 2001 II-2

- c. There are significant amounts included as reconciling items in bank conciliations of general fund and State Legislative resolutions bank accounts. Also, there are unreconciled or significant differences between cash balances in the Form 4(a) Monthly Cash Report with applicable bank reconciliations of SBGP, Local Law Enforcement, Section 8, and Edward Byrne special accounts. Those reconciling items arised primarily from amounts not adjusted in the report, amounts deposited into erroneous bank accounts and accounting errors.
- d. Section 8 program general ledger is not balanced and complete. It does not include accounts related to program fund balance.

Cause and effect:

There is no proper reconciliation procedures to assure adequacy and completeness between different accounting records and reports including general ledger, obligation register, investment register, federal financial assistance program records, bank reconciliations, monthly and annual reports and other financial information maintained by state agencies including the Government Development Bank of Puerto Rico and the Municipal Revenue Collection Center (CRIM). As a result, we could not conclude about certain balances at the general purpose financial statements including cash in the general and special revenue funds and due from (to) balances between general, special revenue and capital project fund. These matters are considered a material weakness which has a direct and significant effect on the amounts recorded in the general purpose financial statements.

Municipality of Rincón

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS - Continued:

Area: Accounting records and reports: (Continued)

Reference number: 2001 II-2

Recommendation:

A complete and immediate review of controls and procedures over financial records and reports should be performed by the Municipality in order to provide management with a complete, accurate and reliable set of accounting records and reports. Those procedures should include, at least, the following:

- a. Review of 4A Monthly Report balances and reconciliation with cash subsidiary records (bank reconciliations and investment register).
- b. Reconciliation procedures between accounting records including general ledger and other accounting registers.
- c. Reconciliation of centralized accounting records with federal financial assistance accounting records.
- d. Reconciliation of accounts which information is maintained by state agencies including Governmental Development Bank of Puerto Rico and the Municipal Revenue Collection Center (CRIM).

Municipality of Rancón  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2002

III. Findings and questioned costs for federal awards:

Reference Number	Program	Regulations/ Requirements	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2002 III-1	US Department of HUD Community Development Block Grant - State's Program CFDA Number 14.228	Special tests and provisions	-	\$ -	-	\$ -	-	\$ -	<p><b>Condition and criteria:</b> Our tests to a sample of six participants files of materials donations program financed with SBGP funds disclosed that the following documents were missing from files:</p> <p>Social security card - in three cases  Evidence of receipt of materials - in five cases  Evidence of work final inspection - in six cases</p> <p><b>Cause and effect:</b> There is a lack of adequate internal control procedures related to the materials donation process which may cause that funds are disbursed to ineligible participants or not used as required.</p> <p><b>Recommendation:</b> We recommend the Federal Programs Office Director to establish the necessary procedures to avoid the occurrence of these exceptions and the Municipality's internal auditor to perform an audit of participant files in order to determine compliance with program regulations with respect to documentation on files and the receipt and use of donated materials.</p>	\$ -

Municipality of Rincón

**SUMMARY SCHEDULE OF PRIOR AUDITS FINDINGS**

Year ended June 30, 2002

I. Findings related to the financial statements reported in accordance with GAGAS:

Fiscal year ended June 30,	Finding Number	Condition	Status
2001	2001 II-2	<ul style="list-style-type: none"> <li>a. The general purpose financial statements as of June 30, 2001 disclosed a cumulative fund balance deficit (GAAP) of (\$2,010,615) due primarily to underestimation of revenues, excess of expenditures over appropriations in prior years and interfund loans transactions.</li> <li>b. The Municipality do not budgeted a statutory appropriation related to the repayment of prior years advances due to the Municipal Revenue Collection Center (CRIM). Actual expenditures for this concept totals \$303,543. This is not in compliance with Article 7.003(b) of the Autonomous Municipal Law of 1981, as amended.</li> <li>c. The Municipality has no adequate procedures for the preparation and monitoring of general fund budget. As a consequence, certain significant expenditures were covered with cash restricted for capital improvements financed with State Legislative Grants and other special revenue fund accounts. Total amount of interfund loans amounted to \$764,757.</li> </ul>	Finding remains uncleared.

Municipality of Rincón

**SUMMARY SCHEDULE OF PRIOR AUDITS FINDINGS**

Year ended June 30, 2002

I. Findings related to the financial statements reported in accordance with GAGAS:

<u>Fiscal year ended June 30,</u>	<u>Finding Number</u>	<u>Condition</u>	<u>Status</u>
1998, 1999, 2000 and 2001	98 II-1; 99 II-1; 2000 II-1; 2001 II-1	The Municipality has not established adequate controls and procedures to assure the completeness, existence and valuation of fixed assets inventories.	Finding remains uncleared. See current year finding No. 2002 II-1 in the accompanying Schedule of Findings and Questioned Costs.
1998, 1999 and 2000	98 II-2; 99 II-2; 2000 II-2	a. Several instances of excess of expenditures over appropriations in the general fund. b. Operational budgetary deficit and cumulative fund balance deficit (GAAP).	Findings remains uncleared.
1997, 1998, 1999, 2000 and 2001	97 II-1; 99 II-3; 2000 II-3; 2001 II-3	Failure to properly implement established internal controls and procedures to maintain complete, accurate and reliable set of accounting records and reports.	Finding remains uncleared. See current year finding No. 2002 II-2 in the accompanying Schedule of Findings and Questioned Costs.
1997	97 II-2	During our examination of internal controls and procedures over the bid process we noted that there was an awarded bid for a construction project of \$3,082,000 where the appropriated budget was \$2,500,000 to cover the awarded bid costs. As stated on the bid board minutes, the bid was awarded based on the recommendation of the Recreational Development Company of Puerto Rico (a state governmental agency).	Finding remains uncleared.

Municipality of Rincón

**SUMMARY SCHEDULE OF PRIOR AUDITS FINDINGS**

Year ended June 30, 2002

I. Findings related to the financial statements reported in accordance with GAGAS - Continued:

<u>Fiscal year ended June 30,</u>	<u>Finding Number</u>	<u>Condition</u>	<u>Status</u>
		<p>This recommendation authorized the Municipality to award the bid for the budget amount the Municipality has available with an agreement to obtain the total additional funds within six months.</p> <p>The Municipality decided to contract the construction project in three stages based on availability of funds. The total amount of the three stages was \$2,715,000, which represents \$318,000 above the original estimated construction costs. As stated in communications between the contractor and the Municipality, the excess costs are based on changes in costs for the additional time incurred and extended overhead cost.</p>	

Municipality of Rincón

**SUMMARY SCHEDULE OF PRIOR AUDITS FINDINGS**

Year ended June 30, 2002

II. Findings and questioned costs for federal awards:

Fiscal year ended June 30,	Program	Finding Number	Condition	Status
2001	US Department of HUD Community Development Block Grant- State's Program CFDA Number 14.228	2001 III-1	In our tests related to procurement procedures we noted that in two bids for asphalt services and in one case related to the acquisition of a vehicle the Municipality could not provide evidence of proper evaluation and criteria for bidder selection.	Finding remains uncleared.
2001	US Department of HUD Community Development Block Grant- State's Program CFDA Number 14.228	2001 III-2	Municipalities are required to request from contractors a certification stating that Entity's Principals are not suspended or debarred from doing business with state or Federal Government or this requirement may be included as a contract's clause. During our examination on three of the Municipality's contracts over \$100,000 we noted that in two cases such clauses were not included in contract nor a certification was obtained from contractors.	Finding remains uncleared.
2000	US Department of HUD Community Development Block Grant- State's Program CFDA Number 14.228	2000 III-1	A service contract not provided for examination.	Finding and related questioned costs of \$548,751 remains uncleared.
1999	Federal Emergency Management Agency - Public Assistance Grants CFDA Number 83.544	99 III-1	<ul style="list-style-type: none"> <li>a. In two instances the disbursements were made and no Damaged Survey Report (DSR) has been approved by FEMA.</li> <li>b. In seven instances the disbursement's concept is not in accordance with approved cost category disclosed on DSR.</li> </ul>	Finding remains uncleared. Questioned Costs totaled \$17,730.

Municipality of Rincón

**SUMMARY SCHEDULE OF PRIOR AUDITS FINDINGS**

Year ended June 30, 2002

II. Findings and questioned costs for federal awards (Continued):

<u>Fiscal year ended June 30,</u>	<u>Area</u>	<u>Finding Number</u>	<u>Condition</u>	<u>Status</u>
1999	Federal Emergency Management Agency – Public Assistance Grants CFDA Number 83.544	99 III-2	The Municipality has not complied in one case with suspension and debarment certification.	Finding remains uncleared.
1997	U.S. Department of HUD: Community Development Block Grant – State’s Program CFDA Number 14.228	97 III-1	During our internal controls tests over the federal funds we found that grantee has not established procedures to comply with suspension and debarment requirement.	Finding remains uncleared. See current year finding 2001 III-2.

Municipality of Rincón  
Finding and Corrective Actions  
Year ended June 30. 2002

Area: Property , plant & equipment  
Reference number: 2002 II-1

Recommendation:

A complete review of the fixes assets area should be done including an adequate fixed assets physical inventory. a reconciliation of subsidiary record with the amounts reported in the general purpose financial statements and establishment of controls to assure the completeness and valuation of fixes assets.

Corrective Action:

- a. The Finance Department and Property Book office have coordinated with "OCAM" for assistance and training for municipal personnel. to reconcile the amounts reported in the general purpose financial statement and to identify fixed assets balances and records.
- b. A procedure will be establish to account for construction in progress: coordination with Municipal Revenue Collective Center (CRIM) i.e. appraisals and the Office of the Municipality Secretary will establish a procedures with the property Book office to coordinate and account for contractors in progress.
- c. Physical Inventory of all fixed assets. that include buildings. land improvements and infrastructure will be coordinated with the Municipal Revenues Collection Center (CRIM) appraisers.

Municipality of Rincón  
Finding and Corrective Actions. Continued  
Year ended June 30, 2002

Area: Accounting records and reports  
Reference number: 2002 II-2

Recommendation:

A complete and immediate review of controls and procedures over financial records and reports should be performed by the Municipality in order to provide management with a complete, accurate and reliable set of accounting records and reports.

Corrective Actions:

- a. The Finance Department and the controller should coordinate with "OCAM" or professional services for assistance and training of 4A Monthly Report balances and reconciliation with cash subsidiary records.
- b. Training will be coordinated to comply with reconciliation procedures that will included the general ledger and other accounting registers.
- c. The Finance Department will centralized the accounting records with federal financial assistance accounting records.
- d. The reconciliation accounts should be better coordinated between agencies, so these accounts be reconciled.

Municipality of Rincón  
Finding and Corrective Actions  
Year ended June 30. 2002

Federal Award Program  
Reference number 2002 III-1

Recommendation:

We recommend the Federal Programs Office Director to establish the necessary procedures to avoid the occurrence of these exceptions and Municipality's internal auditor to perform an audit of participant files in order to determine compliance with program regulations with respect to documentation on files and the receipt and use of donated materials.

Corrective Action:

The Federal Programs Office will assure the establishment adequate controls and procedures so that this situation will not occurred again. Establishment of internal control measures to identify and fix to current findings.

  
Finance Director

FORM **SF-SAC**  
(3-20-2001)

U.S. DEPT. OF COMM.- Econ. and Stat. Admin.- U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET

**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates On or After January 1, 2001**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**RETURN TO** Federal Audit Clearinghouse  
1201 E. 10th Street  
Jeffersonville, IN 47132

**PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)**

<b>1. Fiscal period ending date for this submission</b> Month <u>06</u> / Day <u>30</u> / Year <u>2002</u> Fiscal Period End Dates Must Be On or After January 1, 2001		<b>2. Type of Circular A-133 audit</b> 1 <input checked="" type="checkbox"/> Single audit      2 <input type="checkbox"/> Program-specific audit										
<b>3. Audit period covered</b> 1 <input checked="" type="checkbox"/> Annual      2 <input type="checkbox"/> Biennial 3 <input type="checkbox"/> Other - _____ Months		<b>FEDERAL GOVERNMENT USE ONLY</b>	<b>4. Date received by Federal clearinghouse</b>									
<b>5. Employer Identification Number (EIN)</b> a. Auditee EIN <table border="1"><tr><td>6</td><td>6</td><td>0</td><td>4</td><td>3</td><td>3</td><td>5</td><td>2</td><td>9</td></tr></table>			6	6	0	4	3	3	5	2	9	b. Are multiple EINs covered in this report?      1 <input type="checkbox"/> Yes      2 <input checked="" type="checkbox"/> No If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)
6	6	0	4	3	3	5	2	9				

**6. AUDITEE INFORMATION**

a. Auditee name  
**MUNICIPALITY OF RINCON**

b. Auditee address (Number and street)  
**P.O. BOX 97**  
City  
**RINCON**  
State **PR**      ZIP + 4 Code **00677-**

c. Auditee contact Name  
**MRS. NILSA SOTO**  
Title  
**FINANCE DIRECTOR**

d. Auditee contact telephone  
**( 787 ) 823 - 2575**

e. Auditee contact FAX (Optional)  
**( 787 ) 823 - 2454**

f. Auditee contact E-mail (Optional)

**7. AUDITOR INFORMATION (To be completed by auditor)**

a. Auditor name  
**RODRIGUEZ, RIVERA & TORO, LLP**

b. Auditor address (Number and street)  
**P.O. BOX 1080**  
City  
**MAYAGUEZ**  
State **PR**      ZIP + 4 Code **00681-**

c. Auditor contact Name  
**JOSE A. TORO MERCADO, CPA, CVA**  
Title  
**MANAGING PARTNER**

d. Auditor contact telephone  
**( 787 ) 834 - 3100**

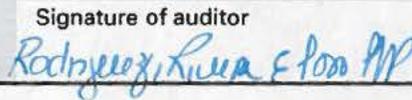
e. Auditor contact FAX (Optional)  
**( 787 ) 831 - 2909**

f. Auditor contact E-mail (Optional)  
**JTORO@RRRLLP.COM**

**g. AUDITEE CERTIFICATION STATEMENT** - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

**9. AUDITOR STATEMENT** - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, items 8, 9, and 10, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of certifying official  Date Month Day Year  
12 / 23 / 02  
Printed Name/Title of certifying official  
**NILSA SOTO/FINANCE DIRECTOR**

Signature of auditor  Date Month Day Year  
12 / 23 / 02

**PART I GENERAL INFORMATION - Continued**

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)  
1  Yes - Identify Cognizant Agency in Part I, Item 9      2  No - SKIP to Part II, Item 1

9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (X) one box) However, if cognizance has been reassigned, see instructions.

- |  |   |   |   |
|--|---|---|---|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy                              | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture                          | 66 <input type="checkbox"/> Environmental Protection Agency     | 15 <input type="checkbox"/> Interior                      | 20 <input type="checkbox"/> Transportation              |
| 11 <input type="checkbox"/> Commerce                             | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice                       | <input type="checkbox"/> Other - Specify:               |
| 12 <input type="checkbox"/> Defense                              | 93 <input type="checkbox"/> Health and Human Services           | 17 <input type="checkbox"/> Labor                         |   |
| 84 <input type="checkbox"/> Education                            |   |   |   |

**PART II FINANCIAL STATEMENTS (To be completed by auditor)**

1. Type of audit report (Mark (X) one box)  
1  Unqualified opinion      2  Qualified opinion      3  Adverse opinion      4  Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report?      1  Yes      2  No

3. Is a reportable condition disclosed?      1  Yes      2  No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness?      1  Yes      2  No

5. Is a material noncompliance disclosed?      1  Yes      2  No

**PART III FEDERAL PROGRAMS (To be completed by auditor)**

1. Type of audit report on major program compliance  
1  Unqualified opinion      2  Qualified opinion      3  Adverse opinion      4  Disclaimer of opinion

2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10)      1  Yes      2  No

3. What is the dollar threshold to distinguish Type A and Type B programs? (§ \_\_ .520(b))      \$ 300,000

4. Did the auditee qualify as a low-risk auditee? (§ \_\_ .530)      1  Yes      2  No

5. Is a reportable condition disclosed for any major program? (§ \_\_ .510(a)(1))      1  Yes      2  No - SKIP to Item 7

6. Is any reportable condition reported as a material weakness? (§ \_\_ .510(a)(1))      1  Yes      2  No

7. Are any known questioned costs reported? (§ \_\_ .510(a)(3) or (4))      1  Yes      2  No

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ \_\_ .315(b))      1  Yes      2  No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)

- |  |  |   |  |
|--|--|---|--|
| 02 <input type="checkbox"/> Agency for International Development           | 83 <input checked="" type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration   |
| 10 <input type="checkbox"/> Agriculture                                    | 39 <input type="checkbox"/> General Services Administration                | 89 <input type="checkbox"/> National Archives and Records Administration  | 19 <input type="checkbox"/> State                            |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 93 <input type="checkbox"/> Health and Human Services                      | 05 <input type="checkbox"/> National Endowment for the Arts               | 20 <input type="checkbox"/> Transportation                   |
| 11 <input type="checkbox"/> Commerce                                       | 14 <input type="checkbox"/> Housing and Urban Development                  | 06 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury                         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services                  | 47 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense  | 15 <input type="checkbox"/> Interior                                       | 07 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs                 |
| 84 <input type="checkbox"/> Education                                      | 16 <input type="checkbox"/> Justice  | 59 <input type="checkbox"/> Small Business Administration                 | 00 <input type="checkbox"/> None                             |
| 81 <input type="checkbox"/> Energy   | 17 <input type="checkbox"/> Labor  |   | <input type="checkbox"/> Other - Specify:                    |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 09 <input type="checkbox"/> Legal Services Corp                            |   |  |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives .....
- and, if not marked above, the cognizant agency (if identified in Part I, Item 9) .....

Count total number of boxes marked above and submit this number of reporting packages      2

FORM SF-SAC (3-20-2001)

**PART III FEDERAL PROGRAMS - Continued** (Page 3 - #1 of 1)

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							11. AUDIT FINDINGS	
Federal Agency Prefix	CFDA Number (a) Extension 2	Research and development (b) 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Name of Federal program (c)	Amount expended (d)	Direct award (e) 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Major program (f) 1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Type(s) of compliance requirement(s) <sup>3</sup> (a)	Audit finding reference number(s) <sup>4</sup> (b)
1 4	.228		COMMUNITY DEVELOPMENT BLOCK GRANT-STATES PROGRAM	\$ 824,985 .00			N	2002 III-1
1 4	.871		SECTION 8 HOUSING CHOICE VOUCHERS	\$ 126,018 .00			O	N/A
1 0	.558		CHILD CARE AND ADULT FOOD PROGRAM	\$ 17,056 .00			O	N/A
8 3	.544		PUBLIC ASSISTANCE GRANTS	\$ 11,638 .00			O	N/A
1 6	.580		EDWARD BYRNE MEMORIAL STATE AND LOCAL LAW ENFORCEMENT ASSISTANCE DISCRETION	\$ 260,461 .00			O	N/A
1 6	.592		LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 2,624 .00			O	N/A
9 3	.575		CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 140,797 .00			O	N/A
9 3	.044		SPECIAL PROGRAMS FOR THE AGING_TITILE III PART B_GRANTS FOR SUPPORTIVE SER	\$ 23,536 .00			O	N/A
9 3	.558		TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	\$ 18,896 .00			O	N/A
1 7	.259		WIA YOUTH ACTIVITIES	\$ 24,369 .00			O	N/A
<b>TOTAL FEDERAL AWARDS EXPENDED</b> →				\$ 1,450,380 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

<sup>3</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

- |                                    |   |  |          |
|------------------------------------|---|--|----------|
| A. Activities allowed or unallowed | F. Equipment and real property management   | K. Real property acquisition and relocation assistance | O. None  |
| B. Allowable costs/cost principles | G. Matching, level of effort, earmarking    | L. Reporting   | P. Other |
| C. Cash management                 | H. Period of availability of Federal funds  | M. Subrecipient monitoring                             |          |
| D. Davis - Bacon Act               | I. Procurement and suspension and debarment | N. Special tests and provisions                        |          |
| E. Eligibility                     | J. Program income                           |  |          |

<sup>4</sup> N/A for NONE

**PART I**      **Item 5 Continuation Sheet**

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	N/A	16	31	46	61
2		17	32	47	62
3		18	33	48	63
4		19	34	49	64
5		20	35	50	65
6		21	36	51	66
7		22	37	52	67
8		23	38	53	68
9		24	39	54	69
10		25	40	55	70
11		26	41	56	71
12		27	42	57	72
13		28	43	58	73
14		29	44	59	74
15		30	45	60	75

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.