

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

**MUNICIPIO DE RINCON**  
**AUDITORIA 2004-2005**  
**30 DE JUNIO DE 2005**



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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**FISCAL YEAR ENDED JUNE 30, 2005**



***Mr. Carlos López Bonilla***  
***Mayor***

***Mr. Francisco Mercado, CPA***  
***Municipal Administrator***

***Mrs. Niéga Soto***  
***Finance Director***

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

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# VALDES, GARCIA & MARIN

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

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## **INDEPENDENT AUDITORS' REPORT**

*Mayor and Municipal Legislature  
Municipality of Rincon  
Rincon, Puerto Rico*

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Rincon, Puerto Rico, (the Municipality) as of and for the year ended June 30, 2005, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Rincon, Puerto Rico as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the General Fund, Commonwealth Legislative Resolutions Fund, Debt Service Fund, Community Development Grant Fund, Rural Development Corporation-Marine Facilities Fund and the aggregate remaining fund information of the Municipality of Rincon Puerto Rico as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management Discussion and Analysis on pages 3 through 13 and the Budgetary Comparison Schedule – General Fund on page 45 are not required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

San Juan, Puerto Rico  
December 22, 2005

A handwritten signature in blue ink, reading "Valdes Garcia Marin". The signature is written in a cursive style with a large initial "V".

Stamp 2109893 was affixed  
to the original.

**MANAGEMENT DISCUSSION AND ANALYSIS**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

Our discussion and analysis of the Municipality of Rincón financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

**Highlights for Government-wide Financial Statements**

The government-wide financial statements report information about the Municipality as a whole using the economic resources measurement focus and accrual basis of accounting:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2005 by \$21,504,988 (net assets).
- Revenues (not including special items) increased by 3% and expenses decreased 2.45% in comparison with year 2004
- Net change in net assets amounted to \$3,813,609, a decrease of 17% with respect to prior year net change.

**Highlights for Fund Financial Statements**

The fund financial statements provide detailed information about the Municipality's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$4,717,531, an increase of \$367,546 in comparison with the prior year. Approximately a negative 13% of the total combined fund balances is unreserved.
- The General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$88,026 and a negative unreserved fund balance of \$598,578. Unreserved fund balances increased 43% from prior year.

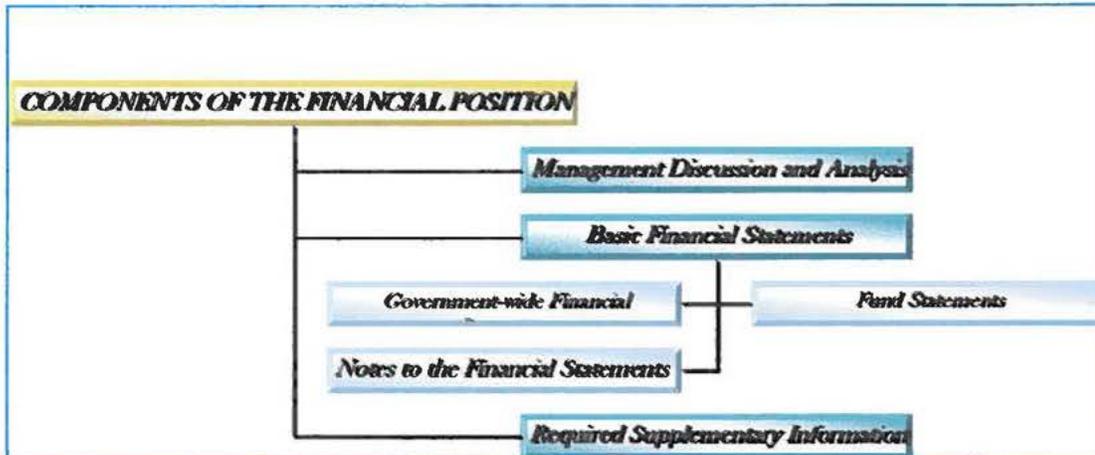
**General Financial Highlights**

- The investment in capital assets as of June 30, 2005 was \$22,118,091 (net of depreciation).
- Long term debt increased to \$6,645,944, approximately 2% with respect to prior year.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$37,711.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Municipality's basic financial statements comprise three components: (1) management discussion and analysis (presented here), (2) basic financial statements, and (3) required supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

**Basic Financial Statements**

- **Government-Wide Financial Statements**

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

- ***Fund Financial Statements***

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

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

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that complies with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to the financial statements***

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

**Required supplementary information**

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

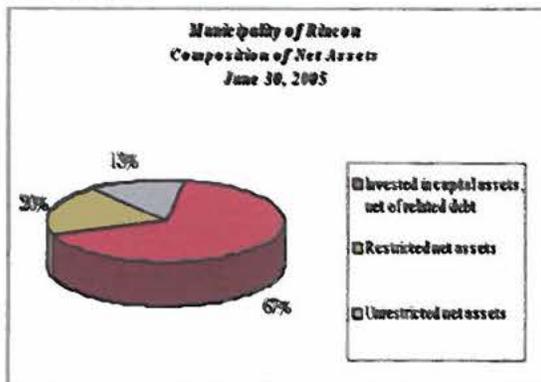
**Net Assets**

The following table presents a summary of the Statements of Net Assets as of June 30, 2005 and 2004:

**TABLE 1**

<i>Summary Statement of Net Assets As of June 30,</i>		
	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Current and other assets	\$ 8,876,931	\$ 7,679,540
Capital assets	22,118,091	18,647,484
<b>Total assets</b>	<b>\$ 30,995,022</b>	<b>\$ 26,327,024</b>
<b>Liabilities</b>		
Current and other liabilities	\$ 2,844,090	\$ 2,092,871
Long term liabilities	6,645,944	6,542,864
<b>Total liabilities</b>	<b>9,490,034</b>	<b>8,635,735</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	19,594,767	16,333,505
Restricted	5,794,524	4,651,220
Unrestricted (deficit)	(3,884,305)	(3,293,347)
<b>Total net assets</b>	<b>\$ 21,504,988</b>	<b>\$ 17,691,379</b>

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, the assets of the Municipality exceeded its liabilities by \$21,504,988 representing an increase of 22% with respect to year 2004. The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less accumulated depreciation and less any related outstanding debt used to acquire those assets.



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

Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets are the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

As of June 30 2005, the Municipality presented an unrestricted net assets deficit. This deficit primarily arise from long term obligations such as compensated absences and debts to CRIM for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as invested in capital assets, net of related debt section of net assets. Therefore, are reported as part of the unrestricted net assets section.

*Changes in net assets*

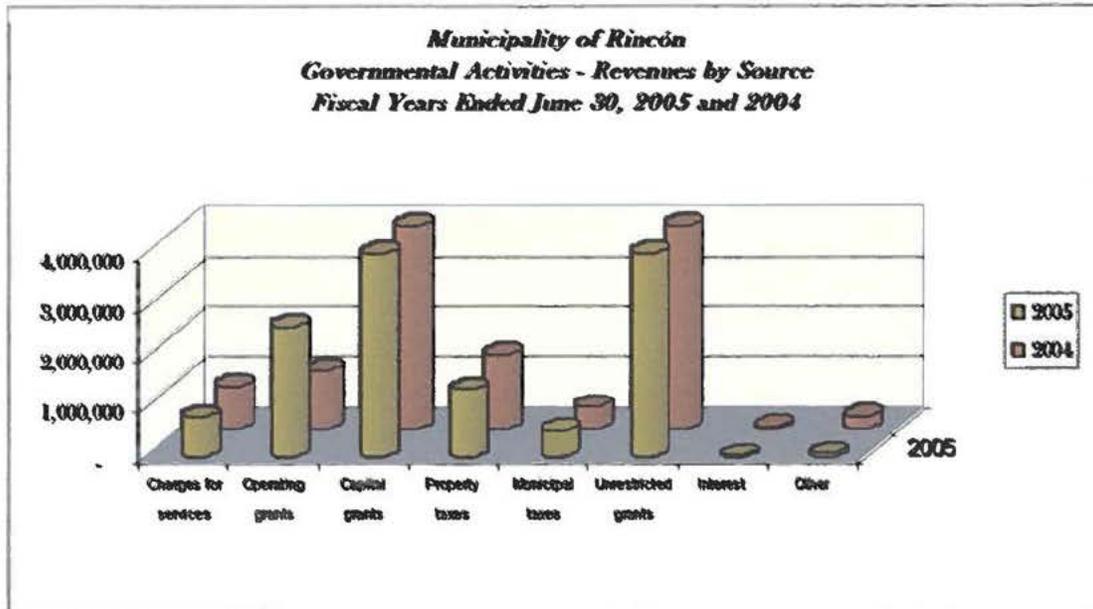
The following table summarizes the changes in net assets for the fiscal years ended 2005 and 2004:

**TABLE 2**

<i>Summary of Changes in Net Assets As of June 30,</i>		
	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004 (as restated)</b>
<b>Program revenues:</b>		
Fees, fines and charges for services	\$ 767,728	\$ 817,050
Operating grants and contributions	2,538,971	1,130,316
Capital grants and contributions	4,313,384	5,236,043
<b>General revenues:</b>		
Property taxes	1,306,671	1,457,846
Municipal license taxes	512,507	410,613
Grants and contributions not restricted to specific programs	4,677,753	4,535,009
Interest	23,063	36,342
Other	62,278	223,055
<b>Total revenues</b>	<b>14,202,355</b>	<b>13,846,274</b>
<b>Expenses:</b>		
General government	4,548,749	4,264,659
Public works and sanitation	2,634,919	2,851,621
Public safety	944,774	826,520
Culture and recreation	528,720	416,780
Health	320,367	309,217
Housing, welfare and community development	1,266,840	1,862,555
Education	3,881	5,416
Interest on long term debt	212,059	186,593
<b>Total expenses</b>	<b>10,460,309</b>	<b>10,723,361</b>
<b>Special items:</b>	<b>71,562</b>	<b>1,482,793</b>
<b>Change in net assets</b>	<b>3,813,608</b>	<b>4,605,706</b>
<b>Net assets-beginning of year</b>	<b>17,691,379</b>	<b>13,085,673</b>
<b>Net assets-end of year</b>	<b>\$ 21,504,987</b>	<b>\$ 17,691,379</b>

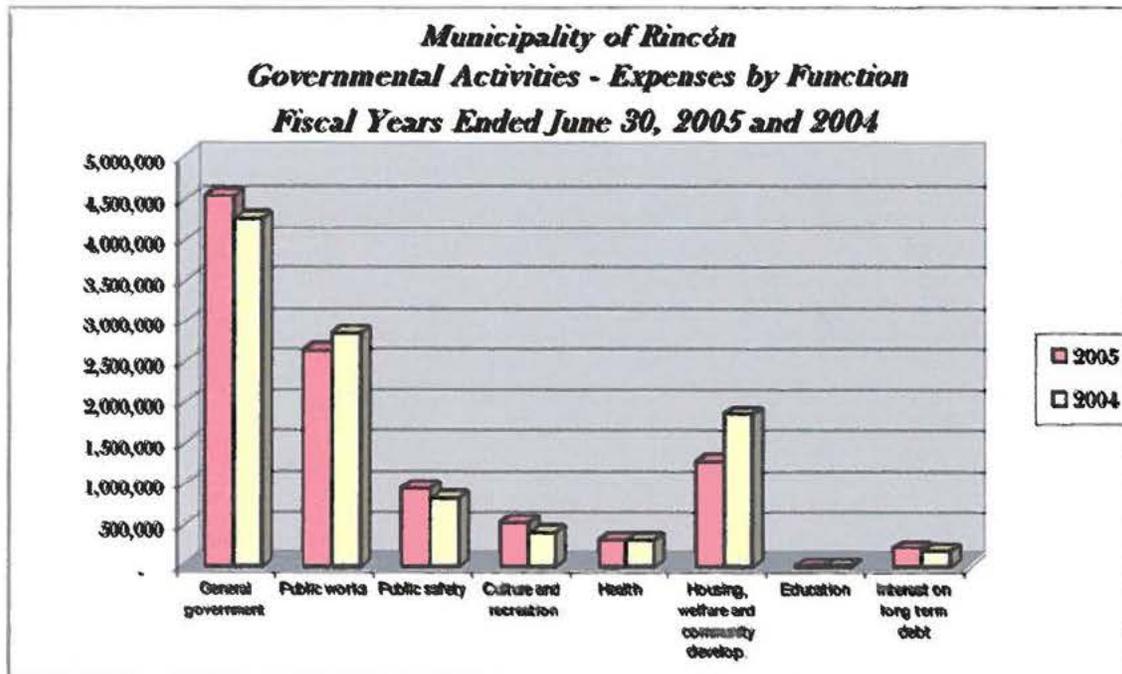
**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

**FIGURE 1**



Approximately 48% of Municipality's revenues came from operating and capital grants, 33% of came from grants and contributions not restricted to specific programs and 9% from property taxes. Revenues (not including special items) increased by 3% in comparison with year 2004. The most significant change is a 125% increase in operating grants, due to assignments by the Commonwealth government.

**FIGURE 2**



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

The Municipality's expenses cover a range of services. The largest expenses are general government representing approximately 43%, public works and sanitation with 25% and welfare with 12%. Program revenues of the Municipality covered 73% of total expenses.

Expenses decreased 2% in comparison with previous year. This includes a net difference of an decrease in welfare of 32% (due to additional welfare expenses related to donations and others financed with external grants such as Section 8 Voucher and CDBG); a 28% decrease in education (due to less depreciation expense); and an increase of 27% in culture and recreation (due to activities programmed by the municipality for the enjoyment of the citizens).

Changes in net assets in 2005 include additional resources from property tax amnesty in the amount of \$71,562 which was reported as a special item in the financial statements.

As noted previously the increase in revenues combined with an decrease in expenses caused the net change in net assets to increase approximately 22% compared with net change in net assets reported in 2004 statement of activities.

The following table focuses on the cost of each of the Municipality's largest programs as well as each program's net cost (total cost less fees generated by the programs and program –specific intergovernmental aid):

**TABLE 3**

<i>Net Cost of Municipality's Governmental Activities Fiscal years ended June 30,</i>				
<b>Functions/Programs</b>	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
General government	\$ 4,548,749	\$ 4,264,659	\$ (2,520,684)	\$ (2,786,907)
Public works and sanitation	944,774	2,851,621	1,257,456	515,277
Public safety	2,634,919	826,520	(816,556)	(744,805)
Culture and recreation	320,367	416,780	(427,614)	(415,386)
Housing, welfare and community development	528,720	1,862,555	203,479	393,096
Other	1,482,780	501,226	(536,307)	(501,226)
	<u>\$ 10,460,309</u>	<u>\$ 10,723,361</u>	<u>\$ (2,840,225)</u>	<u>\$ (3,539,952)</u>

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$767,728) and other governments and organizations that subsidized certain programs with grants and contributions (\$6,852,355). The \$2,840,225 net cost of services was fully covered by other general revenues including property and municipal license taxes.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS**

**Governmental funds**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the Fiscal year ended June 30, 2005, the governmental funds reported combined ending fund balances of \$4,717,531, a net increase of \$367,546 in comparison with the prior year. This increase was caused primarily by a net change in the general fund of \$88,026; \$61,625 in the debt service fund; \$242,741 in the Commonwealth Legislative Joint Resolutions Fund and (\$24,847) in the other governmental funds. Of total combined fund balances, \$(598,578) (-13%) constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. Unreserved fund balance of the general fund represents approximately -13% of total combined ending fund balances. For the year ended June 30, 2005, the fund balance of the general fund increased by a net change of \$88,026 when compared with the prior year. Of this net change \$202,364 pertains to other special funds (with self imposed restrictions) included as part of the general fund. Resources to finance these special funds were provided in previous years but funds were expended in current year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The general fund original budget for the fiscal period 2004-2005 presented an increase of 6% with respect to prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year budget revenues were increased by \$31,356 due to additional collections of property taxes. Budget expenditures were increased by \$105,633. Actual revenues exceeded revised budgeted revenues by \$75,562 (net). The most significant variances were in intergovernmental revenues, \$127,960, and fees, fines and charges for services, (\$118,288), due to additional collections of intergovernmental subsidies and additional funds acquired by services provided by the municipality. The Municipality reported a net negative variance of \$35,990 between revised budgeted appropriations and actual expenditures and ended with a total net positive variance of \$39,572.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets**

At the end of the fiscal year, the Municipality has invested \$22,118,091 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of approximately 19% over the prior year.

**TABLE 4**

<i>Capital Assets, net As of June 30,</i>		
	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Non-depreciable assets:</b>		
Land	\$ 3,103,903	\$ 3,104,358
Construction in progress	4,431,227	2,756,184
<b>Depreciable assets:</b>		
Land improvements		
Buildings and buildings improvements	9,045,909	7,604,421
Infrastructure	3,072,822	2,651,719
Vehicles, machinery and equipment	2,464,230	2,530,802
<b>Total</b>	<b>\$ 22,118,091</b>	<b>\$ 18,647,484</b>

The Municipality's major capital projects that were still in construction as of June 30, 2005 are as follows:

- Improvements to new City Hall - \$2,962,768
- Barrero Sanitary Sewer System - \$1,376,700
- Improvements to the Market Place - \$65,775
- Improvements to the Lighthouse - \$24,983

The Municipality acquired a total of \$281,681 on equipment during the fiscal year 2004-2005, including various motor boats for a combined amount of \$185,700 and a passenger bus for an amount of \$57,850.

The Municipality's fiscal year 2005-2006 consolidated capital budget calls for a significant amount of projects including improvements to the market place "Ventana al Mar" (\$1,600,000); the construction of the "Ojo de Agua" Public Parking (\$300,000); construction of a "Bicycle Trail" (\$7,000,000); the construction of "Plaza de la Amistad" (\$400,000); the construction of a public parking near the new city hall; the construction of a vertical public parking with commercial sites; the improvements to the water system (\$3,800,000); the improvements to the Lighthouse Recreational area; and the acquisition and development of Marine Facilities (\$1,800,000). These projects will be financed through Federal and Commonwealth grants, funds from the Commonwealth Legislature, general obligation bonds and Municipal funds. More detailed information about the Municipality's capital assets is presented in Note E to the financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

**Long term debt**

At year-end, the Municipality had \$ 4,521,000 in general and special bonds and notes, a increase of 16% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2005 and 2004:

**TABLE 5**

<b>Outstanding Long-term Debt Fiscal years ended June 30,</b>		
	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004 (as restated)</b>
General and special obligation bonds and notes	\$ 4,521,000	\$ 3,899,000
Bond anticipation note	-	530,000
Note payable to CRIM - Law No. 42	458,096	464,571
Note payable to CRIM - LIMS	123,332	138,471
Note payable to CRIM - financing of delinquent accounts	82,153	142,472
Line of credit - GDB	179,682	-
Payable to CRIM - final settlements of 2003-2004 and 2005-2005 fiscal years	117,094	88,520
PR Department of Treasury - prior years property taxes	41,734	51,749
PR Dept. of Labor - Unemployment pay plan	-	184,142
Compensated absences	913,978	862,174
Christmas bonus payable	181,764	181,764
Judgments and claims	27,112	-
<b>Total</b>	<b>\$ 6,645,944</b>	<b>\$ 6,542,864</b>

The Municipality reported a decrease in the other long term debts of \$518,920. This decrease was primarily due to the payment of the Bond Anticipation Note of \$530,000 due to the issuance of the corresponding general obligation bond. The other significant decrease in long term debt results from the partial payment of an unemployment debt by issuing a general obligation bond. More detailed information about the Municipality's long term liabilities is presented in Note F of the financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality's officials considered certain factors when setting the fiscal year 2005-2006 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 13.5%, which compares with the Commonwealth rate of 10.6%.

For year 2005-2006 the Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2006 are \$7,255,728 representing an increase of approximately 7% with respect to prior year estimates. Budgeted expenditures are expected to rise accordingly to the increase of budgeted revenues. If these estimates are realized, the Municipality's budgetary general fund balance is expected to increase modestly by the close of 2006 fiscal year. In addition to the general fund estimated budget the Municipality plans to submit Federal and Commonwealth funds proposals for welfare and community development as well as permanent capital improvements and public works. The construction industry has been one of the major sources of income generated by the Municipality, in the construction of personal housing, contributing with construction.

**CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

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

**BASIC FINANCIAL STATEMENTS**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

<b>ASSETS</b>	<u><b>Governmental Activities</b></u>
Cash and cash equivalents	\$ 344,985
Receivables, net	
Others	5,558
Due from:	
Commonwealth Government (note C)	943,753
Federal Government (note C)	712,021
Restricted assets:	
Cash and cash equivalents	5,673,428
Cash with fiscal agent	890,914
Deferred bond issuance costs	23,189
Other Assets	283,083
Capital Assets (note E):	
Land and construction in progress	7,535,130
Other capital assets, net	14,582,961
 Total capital assets, net	 <u>22,118,091</u>
 <b>Total assets</b>	 <u><u>\$ 30,995,022</u></u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 1,010,518
Interest payable	108,518
Due to:	
Commonwealth Government (note C)	86,587
Federal Government	9,884
Deferred revenues:	
Municipal License taxes	364,953
Intergovernmental-Commonwealth agencies	1,012,276
Federal grants	251,354
Long term liabilities (note F):	
Due within one year	895,033
Due in more than one year	5,750,911
<b>Total liabilities</b>	<u>9,490,034</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	19,594,767
Restricted for:	
Debt service	557,683
Capital Projects	4,554,993
Other specified purposes	681,848
Unrestricted (deficit)	(3,884,305)
 <b>Total net assets</b>	 <u><u>\$ 21,504,987</u></u>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2005**

<u>Functions</u>	<u>Program Revenues</u>			<u>Net (expense) revenue and changes in net assets</u>	
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>					
General government	\$ 4,548,749	\$ 717,728	\$ 705,029	\$ 605,308	\$ (2,520,684)
Public works and sanitation	2,634,919	-	1,045,156	2,847,219	1,257,456
Public safety	944,774	-	128,218	-	(816,556)
Culture and recreation	528,720	50,000	51,106	-	(427,614)
Health	320,367	-	-	-	(320,367)
Welfare and community development	1,266,840	-	609,462	860,857	203,479
Education	3,881	-	-	-	(3,881)
Interest on long term debt	212,059	-	-	-	(212,059)
<b>Total</b>	<u>\$ 10,460,309</u>	<u>\$ 767,728</u>	<u>\$ 2,538,971</u>	<u>\$ 4,313,384</u>	<u>(2,840,225)</u>
<b>General revenues :</b>					
Taxes					
				1,306,671	
				512,507	
				4,677,753	
				23,063	
				62,278	
<b>Special items (note N) :</b>					
				71,562	
				<u>6,653,834</u>	
				3,813,609	
				17,691,379	
				<u>\$ 21,504,988</u>	

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	Rural Development Corporation-Marine Facilities	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 344,985	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 344,985
Receivables, net							
Other	5,558	-	-	-	-	-	5,558
Due from:							
Commonwealth Government	267,696	-	73,001	-	-	603,056	943,753
Federal Government	-	-	-	276,769	-	435,252	712,021
Other funds	571,125	-	-	-	-	-	571,125
Advances to other funds	125,605	694,758	-	-	-	5,010	825,373
Restricted assets:							
Cash and cash equivalents	17,742	3,585,251	-	774	1,000,000	1,069,661	5,673,428
Cash with fiscal agent	21,761	-	598,173	-	-	270,980	890,914
<b>Total assets</b>	<b>\$ 1,354,472</b>	<b>\$ 4,280,009</b>	<b>\$ 671,174</b>	<b>\$ 277,543</b>	<b>\$ 1,000,000</b>	<b>\$ 2,383,959</b>	<b>\$ 9,967,157</b>
<b>LIABILITIES</b>							
Accounts payable and accrued liabilities	\$ 245,071	\$ 39,946	\$ -	\$ 126,858	\$ -	\$ 598,643	\$ 1,010,518
Matured bonds and interest payable	-	-	394,998	-	-	-	394,998
Due to:							
Commonwealth Government	86,587	-	-	-	-	-	86,587
Federal Government	-	-	-	-	-	9,884	9,884
Other funds	-	-	-	150,685	-	420,440	571,125
Advances from other funds	699,768	-	-	-	-	125,605	825,373
Deferred revenues:							
Municipal License taxes	364,953	-	-	-	-	-	364,953
Intergovernmental-Commonwealth Government	90,882	-	5,585	-	1,000,000	328,342	1,424,809
Federal grants	111,237	-	-	-	-	450,141	561,378
<b>Total liabilities</b>	<b>\$ 1,598,498</b>	<b>\$ 39,946</b>	<b>\$ 400,583</b>	<b>\$ 277,543</b>	<b>\$ 1,000,000</b>	<b>\$ 1,933,055</b>	<b>\$ 5,249,625</b>
<b>FUND BALANCES</b>							
Reserved for:							
Encumbrances	7,535	-	-	-	-	-	7,535
Debt Service	-	-	270,591	-	-	-	270,591
Capital projects	-	3,545,306	-	-	-	804,226	4,349,532
Other specified purposes	347,017	-	-	-	-	(353,324)	(6,307)
Advances	-	694,758	-	-	-	-	694,758
Unreserved	(598,578)	-	-	-	-	-	(598,578)
<b>Total fund balances</b>	<b>(244,026)</b>	<b>4,240,064</b>	<b>270,591</b>	<b>-</b>	<b>-</b>	<b>450,902</b>	<b>4,717,531</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,354,472</b>	<b>\$ 4,280,010</b>	<b>\$ 671,174</b>	<b>\$ 277,543</b>	<b>\$ 1,000,000</b>	<b>\$ 2,383,957</b>	<b>\$ 9,967,156</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005**

<b>Total fund balances- governmental funds</b>	<b>\$</b>	<b>4,717,531</b>
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet:</p>		22,118,091
<p>Other assets used in governmental activities are not current financial resources and therefore are not reported in the funds:</p>		
Deferred charges - bond issuance costs		23,189
Other assets		283,083
<p>Other assets are not available to pay current-period expenditures and therefore are deferred in the funds:</p>		
Receivable - christmas bonus reimbursement		90,882
Receivable - EDA		94,720
Receivable - Rural Development		145,241
Receivable - TANF		58,205
Receivable - Commonwealth's capital improvement fund		51,300
Receivable - Special Communities		190,094
Receivable - others		92,115
<p>Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds:</p>		(23,520)
<p>Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:</p>		(6,335,944)
<b>Net assets of governmental activities:</b>	<b>\$</b>	<b><u>21,504,987</u></b>

The accompanying notes are an integral part of these statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FISCAL YEAR ENDED JUNE 30, 2005**

	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	Rural Development Corporation- Marine Facilities	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Taxes							
Property taxes (note G)	\$ 946,174	\$ -	\$ 389,071	\$ -	\$ -	\$ -	\$ 1,335,245
Municipal license taxes (note H)	512,507	-	-	-	-	-	512,507
Intergovernmental: (note I)							
Commonwealth government	5,887,610	1,179,850	-	-	-	2,357,725	9,425,185
Federal government	-	-	-	1,049,782	-	1,217,644	2,267,426
Fees, fines and charges for services	791,755	-	-	-	-	-	791,755
Interest	17,337	-	5,718	-	-	8	23,063
Other	33,721	-	-	-	-	4,985	38,706
<b>Total revenues</b>	<b>8,189,104</b>	<b>1,179,850</b>	<b>394,789</b>	<b>1,049,782</b>	<b>-</b>	<b>3,580,362</b>	<b>14,393,887</b>
<b>EXPENDITURES</b>							
Current:							
General government	4,534,052	8,035	-	168,554	-	298,572	5,009,213
Public works and sanitation	1,996,884	8,348	-	-	-	114,295	2,119,527
Public Safety	761,325	-	-	-	-	103,753	865,078
Culture and recreation	300,714	-	-	-	-	20,248	320,962
Health	320,367	-	-	-	-	-	320,367
Welfare and community development	1,928	91,061	-	572,013	-	559,397	1,224,399
Capital outlays	86,605	829,664	-	309,215	-	2,973,094	4,198,578
Debt Service							
Principal	-	-	350,000	-	-	-	350,000
Interest	-	-	184,306	-	-	-	184,306
Bond issuance costs	1,650	-	-	-	-	2,358	4,008
<b>Total expenditures</b>	<b>8,003,525</b>	<b>937,108</b>	<b>534,306</b>	<b>1,049,782</b>	<b>-</b>	<b>4,071,717</b>	<b>14,596,438</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>185,579</b>	<b>242,742</b>	<b>(139,517)</b>	<b>-</b>	<b>-</b>	<b>(491,355)</b>	<b>(202,551)</b>
Other financing sources (uses)							
Proceeds from credit line	-	-	-	-	-	392,155	392,155
Proceeds from general obligation bonds	192,000	-	-	-	-	305,000	497,000
Payment of long term debt	(178,147)	-	-	-	-	-	(178,147)
Payment of credit line	-	-	-	-	-	(212,473)	(212,473)
Transfers in	25,855	-	157,000	-	-	2,574	185,429
Transfers out	(159,574)	-	(5,107)	-	-	(20,748)	(185,429)
<b>Total other financing resources (uses)</b>	<b>(119,866)</b>	<b>-</b>	<b>151,893</b>	<b>-</b>	<b>-</b>	<b>466,508</b>	<b>498,535</b>
<b>Special items (note P)</b>							
Property taxes - amnesty	22,313	-	49,249	-	-	-	71,562
<b>Total special items</b>	<b>22,313</b>	<b>-</b>	<b>49,249</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>71,562</b>
<b>Net change in fund balance</b>	<b>88,026</b>	<b>242,742</b>	<b>61,625</b>	<b>-</b>	<b>-</b>	<b>(24,847)</b>	<b>367,546</b>
Fund balance at beginning of year, as restated (note J)	332,052	3,997,322	208,966	-	-	475,749	4,349,985
<b>Fund balance at end of year</b>	<b>\$ (244,026)</b>	<b>\$ 4,240,064</b>	<b>\$ 270,591</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 450,902</b>	<b>\$ 4,717,531</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2005**

**Net change in fund balances - total governmental funds:** **\$ 367,546**

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

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

Expenditures for capital assets	\$ 4,201,578	
Less: current year depreciation	<u>(730,516)</u>	3,471,062

Other assets used in governmental activities are not current financial resources and therefore are not reported in the funds:

Deferred charges - bond issuance costs		23,189
Other assets		283,083

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

(455)

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

Christmas bonus reimbursement	\$ 90,882	
Rural Development	145,241	
TANF	58,205	
Commonwealth's Capital Improvement Fund	51,300	
Special Communities	190,094	
Others	<u>92,117</u>	627,839

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

Law No.52	\$ (495,944)	
Office of Elderly Affairs	(21,156)	
Rural Development Corporation (CDR)	(182,358)	
CRIM-current year	(28,574)	
Christmas bonus reimbursement-prior year	<u>(90,882)</u>	(818,914)

Proceeds from notes payable and general obligation bonds are an other financing sources in the governmental funds, but increase long-term liabilities in the Statement of Net Assets:

(1,419,155)

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

Matured bonds principal payments (net change)		(55,000)
---	--	----------

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

General obligation bonds and notes	\$ 405,000	
Other long term liabilities	<u>1,258,553</u>	1,663,553

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Compensated absences	\$ (110,030)	
Judgment and Claims	(27,111)	
Accrued interest (net change)	(10,233)	
Christmas bonus	<u>(181,764)</u>	(329,139)

**Change in net assets of governmental activities:**

**\$ 3,813,609**

The accompanying notes are an integral part of these statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

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

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

**1. Financial reporting entity**

The financial reporting entity included in this report consists of the financial statements of the Municipality of Rincon (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. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- 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,
  - 1) The primary government can impose its will on the potential component unit and/or,
  - 2) A financial benefit/ burden exist between the primary government and the potential component unit.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if all of the following criteria are met:

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

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

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

**Basis of presentation, measurement focus and basis of accounting**

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

**Management Discussion and Analysis**

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

**Basic financial statements**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

**Government-wide statements**

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Assets incorporates all capital (long lived) assets and receivables as well as long term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The Municipality reports deferred revenues in the government-wide statements. Deferred revenues arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed and the revenue is recognized.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

**Fund Statements**

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users (for Debt Service and Community Development Block Grant Program Funds).

The Municipality reports the following major governmental funds:

**General Fund:** This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

**Commonwealth Legislature Grants Fund:** This fund accounts for revenue sources from grants provided by the Commonwealth's Legislature for specific purposes which include, among others, acquisition, development and improvements of capital assets.

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

**Community Development Block Grant Program Fund (CDBG):** CDBG fund is used to account for revenues sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

**Rural Development Corporation- Marine Facilities Fund:** This fund is used for acquisition of marine facilities to be used by Municipality's citizens.

Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The fund statements are maintained and reported on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period except for reimbursement-based (expenditure-driven) grants for which the availability period is 90 days.

Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes (derived tax revenues) when the underlying exchange has occurred, subject to the availability criteria. Revenues on intergovernmental grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met and revenue becomes available. For reimbursement-based (expenditure-driven) grants revenue is recognized when all applicable eligibility requirements have been met and the resources are available. Reimbursement eligibility requirements are met when allowable costs are incurred. Licenses and permits, charges for services, rent and miscellaneous revenues generally are recorded as revenues when received because they are not measurable until collected.

The Municipality reports deferred revenues in the governmental funds statements which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met. (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). 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.

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

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

**Notes to Financial Statements**

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

**Required Supplementary Information**

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

**2. Cash, cash equivalents (unrestricted and restricted) and restricted cash with fiscal agents**

Cash and cash equivalents consists of cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth Legislature Resolutions is restricted since their use is limited as required by law.

Restricted cash with fiscal agent in the debt service fund consist of the undisbursed balance of property tax collections retained by the Commonwealth of Puerto Rico, which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent in the \$1,660,000 Bond Issuance fund represents the undisbursed proceeds from the \$1,660,000 bond which is maintained in a cash custodian account by the Governmental Development Bank of Puerto Rico (GDB). Restricted cash and cash equivalents of other governmental funds represent the undisbursed balance of bond anticipation notes held in custody of Rural Development.

**3. Receivables and due from governmental entities**

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions.

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property tax revenue of current fiscal year collected by the CRIM on the first month (July) of subsequent fiscal year.

**4. Interfund receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due from/to other funds".

**5. Inventories**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

**6. Capital assets**

Capital assets of the primary government, with include property, plant, equipment and infrastructure, (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities in the Statements of Net Assets. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The Municipality maintains a threshold level of \$1 or more for capitalizing vehicles, machinery and equipment. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

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

**7. Long-term obligations**

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Assets, consists of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

**8. Deferred bond issuance costs**

Bond issuance costs are reported as deferred charges and amortized as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

**9. Compensated absences**

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

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

**10. Fund balances and Net Assets**

In the fund financial statements, governmental funds report reserved and unreserved fund balances. Reservations of fund balance represent portions of the fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- |                           |   |
|---------------------------|---|
| Encumbrances:             | Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received.   |
| Debt Service:             | Represents net assets available to finance future debt service payments.  |
| Capital Projects:         | Represent amounts to be used for future expenditures for capital projects under contracts and other commitments. These commitments generally will become liabilities in future periods as the projects are completed.   |
| Other specified purposes: | Represent amounts to be used for future expenditures of Federal and Commonwealth's grants as well as funds reserved through enabling legislation passed by the government itself, to be used to finance activities other than construction or capital improvement commitments |
| Advances:                 | Represent the non current portion of interfund loans.   |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

In the government-wide statements net assets are segregated into three categories:

- Invested in capital assets, net of related debt: Consists of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
- Restricted net assets: Represents net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- Unrestricted net assets: Represent net assets that do not meet the definition of net assets Invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

**11. Interfund transactions**

The Municipality reports certain transactions as operating transfers, which are legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.

**12. Risk financing**

The Puerto Rico Treasury Department (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality of Rincon consists of professional, public responsibility, property and theft, auto and fidelity bond coverage.

Insurance policies costs are allocated by PRDT among all the municipalities of Puerto Rico. Payment of the Municipality's insurance premiums is monthly deducted from advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Workers compensation insurance is also deducted from the monthly advances by the CRIM. Settled cases have not exceeded insurance coverage for any of the past three years.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

**13. Use of estimates**

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

**14. Future adoption of accounting pronouncements**

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

Statement	To be Adopted in Fiscal year ended,
42      Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	June 30, 2006
43      Financial Reporting for Post employment Benefits Plans Other Than Pension Plans	June 30, 2008
44      Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement No. 1	June 30, 2006
45      Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions	June 30, 2009
46      Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34	June 30, 2007
47      Accounting for Termination Benefits	June 30, 2006; for termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE B- CUSTODIAL CREDIT RISK - DEPOSITS**

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

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. At year end the Municipality's bank balance in commercial banks amounts to \$6,101,579.

Deposits in governmental banks are uninsured and uncollateralized. At year end the Municipality's bank balance in governmental banks amounts to \$880,104.

**NOTE C- DUE FROM (TO) GOVERNMENTAL ENTITIES**

1. Amounts due from governmental entities as of June 30, 2005 follows:

	Commonwealth Government	Federal Government
Puerto Rico Department of Education	\$ 22,500	\$ -
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	73,001	-
Puerto Rico Department of Treasury – Christmas Bonus Reimbursement	90,882	-
Public Order Code	80,257	-
Puerto Rico Department of Labor – Law No.52	154,314	-
Office of Elderly Affairs	32,177	-
Commonwealth of Puerto Rico's public improvements fund	300,528	-
Puerto Rico Department of Housing – Special Communities	190,094	-
Rural Development	-	230,985
Office of Commissioner of Municipal Affairs - CDBG	-	276,768
Economic Development Administration-EDA	-	94,720
Puerto Rico Department of Family – Temporary Assistance for Needy Families (TANF)	-	58,205
Puerto Rico Department of Family – Child Care	-	39,484
Federal Emergency Management Agency	-	11,858
	\$ 943,753	\$ 712,020

Amounts due from Puerto Rico Department of Treasury (\$90,882), Public Order Code (\$80,257), Commonwealth of Puerto Rico's public improvements fund (\$51,300), Puerto Rico Department of Housing-Special Communities (\$190,094), Rural Development (\$145,241), Economic Development Administration-EDA (\$94,720), Puerto Rico Department of Family-TANF (\$58,205) and Federal Emergency Management Agency (\$11,858) are recorded as deferred revenue in the governmental funds statements since are not available as required by current standards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE C- DUE FROM (TO) GOVERNMENTAL ENTITIES-Continued**

2. Amounts due to governmental entities as of June 30, 2005 follows:

	Commonwealth Entities
Puerto Rico Department of Labor – unemployment benefits	\$ 52,842
Puerto Rico Retirement Plan Administration	20,576
Puerto Rico General Services Administration	7,898
Puerto Rico Aqueduct and Sewer Authority (PRASA)	5,272
	\$ 86,588

**NOTE D- INTERFUND TRANSACTIONS**

1. Due from/to other funds

Amounts due from to other funds represent advances to other funds by the general fund payroll and payroll taxes expenditures, as follows:

Receivable Fund	Payable Funds	Amount
General Fund	Major Fund - CDBG	\$ 150,685
	Other governmental funds – Special Communities	147,652
	Other governmental funds – Public Order Code	106,793
	Other governmental funds – Child Care	70,096
	Other governmental funds-TANF	58,205
	Other governmental funds-others	37,695
Total:		\$ 571,126

2. Advances to other funds

Advances to other funds includes \$ 699,768 in advances by the Commonwealth Legislative Grants Fund and other governmental funds to the general fund for payment of payrolls, payroll taxes and other operational expenditures in previous periods not reimbursed as of fiscal year-end. In addition, includes \$125,605 of an advance by the general fund to the Economic Development Administration Fund (included as other governmental fund) to finance a construction project.

3. Operating transfers

Transfers between individual funds were made for operational purposes. Transfers includes interest earned on restricted cash with fiscal agents in the debt service fund and operating and capital improvement loans in other governmental funds which is transferred to the general fund; and principal and interest payments of general long term debt transferred from the general fund to the debt service fund.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE E- CAPITAL ASSETS**

Capital assets and depreciation activity as of and for the year ended June 30, 2005 is as follows:

	Balance July 1, 2004, as restated	Increases	Decreases	Balance June 30, 2005
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 3,104,358	\$ -	\$ 455	\$ 3,103,903
Construction in progress	2,756,184	3,306,441	1,631,399	4,431,226
<b>Total capital assets not being depreciated:</b>	<b>5,860,542</b>	<b>3,306,441</b>	<b>1,631,854</b>	<b>7,535,129</b>
Capital assets, being depreciated:				
Buildings and building improvements	10,090,445	1,664,234	-	11,754,679
Infrastructure	5,153,495	580,621	-	5,734,116
Vehicles, machinery and equipment	4,926,257	281,681	-	5,207,938
<b>Total capital assets being depreciated</b>	<b>20,170,197</b>	<b>2,526,536</b>	<b>-</b>	<b>22,696,733</b>
Less accumulated depreciation for:				
Buildings and building improvements	2,486,024	222,746	-	2,708,770
Infrastructure	2,501,776	159,518	-	2,661,294
Vehicles, machinery and equipment	2,395,455	348,252	-	2,743,707
<b>Total accumulated depreciation</b>	<b>7,383,255</b>	<b>730,516</b>	<b>-</b>	<b>8,113,771</b>
<b>Total capital assets being depreciated, net</b>	<b>12,786,942</b>	<b>1,796,020</b>	<b>-</b>	<b>14,582,962</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 18,647,484</b>	<b>\$ 5,102,461</b>	<b>\$ 1,631,854</b>	<b>\$ 22,118,091</b>

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

**Governmental activities:**

General government	\$ 29,788
Public works and sanitation	380,135
Public safety	74,315
Culture and recreation	207,604
Welfare and community development	36,807
Education	1,867
<b>Total depreciation expense, governmental activities</b>	<b>\$ 730,516</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE E- CAPITAL ASSETS - Continued**

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

**NOTE F- LONG TERM DEBT**

1. Summary of long- term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2005:

	Balance at July 1, 2004, as restated	Increases	Decreases	Balance at June 30, 2005	Due within one year
General, Special Obligation Bonds and Notes	\$ 3,899,000	\$ 1,027,000	\$ 405,000	\$ 4,521,000	\$ 352,000
Bond anticipation note	530,000	-	530,000	-	-
Note payable to CRIM-Law No. 42	464,571	-	6,475	458,096	6,882
Note payable to CRIM-LIMS	138,471	-	15,139	123,332	16,054
Note payable to CRIM-financing of delinquent accounts	142,472	-	60,319	82,153	5,439
Line of credit - GDB	-	392,155	212,473	179,682	179,682
Payable to CRIM- final settlements 03-04 and 04-05	88,520	28,574	-	117,094	88,520
Payable to Puerto Rico Treasury Department - prior years property taxes	51,749	-	10,015	41,734	10,015
Payable to Puerto Rico Department of Labor- unemployment tax Compensated absences	184,141	-	184,141	-	-
Christmas Bonus	862,174	110,029	58,226	913,977	27,566
Christmas Bonus	181,764	181,764	181,764	181,764	181,764
Judgments and legal claims	-	27,111	-	27,111	27,111
	<u>\$ 6,542,864</u>	<u>\$ 1,766,633</u>	<u>\$ 1,663,552</u>	<u>\$ 6,645,944</u>	<u>\$ 895,033</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE F- LONG TERM DEBT – Continued**

2. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2005 amount to \$4,521,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to levy and collect property taxes for payment of principal and interest on bonds and notes. A debt service fund has been established for the bonds and notes at GDB with the proceeds of those property taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of long term debt issued for operational purposes are made through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).

A detail of the general and special obligation bonds and notes as of June 30, 2005 follows:

	Outstanding Amount
2000 special obligation bonds of \$910,000 due in annual installments of \$75,000 to \$125,000 through July 1, 2010; bearing interest at rates ranging from 5.0% to 8.0% (5.00% at June 30, 2005)	\$ 620,000
2002 special obligation bonds of \$635,000 due in annual installments of \$10,000 to \$50,000 through January 1, 2027; bearing interest at 6.5%	620,000
1996 general obligation bonds of \$75,000 due in annual installments of \$10,000 through July 1, 2005; bearing interest at rates ranging from 6.5% to 8.00% (5.00% at June 30, 2005)	10,000
2001 general obligation notes of \$465,000 due in annual installments of \$95,000 to \$105,000 through July 1, 2006; bearing interest at rates ranging from 2.8% to 3.21% (2.89% at June 30, 2005)	205,000
1994 public improvement bonds of \$721,000 due in annual installments of \$27,000 to \$52,000 through January 1, 2017; bearing interest at 5.0%	476,000
2002 general obligation bonds of \$1,660,000 due in annual installments of \$30,000 to \$130,000 through July 1, 2026; bearing interest at rates ranging from 2.8% to 5.6% (2.89% at June 30, 2005)	1,575,000
2005 general obligation bonds of \$192,000 due in annual installments of \$15,000 to \$24,000 through July 1, 2014; bearing interest at rates ranging from 4.37% to 5.00% (4.37% at June 30, 2005)	192,000
2004 general obligation notes of \$305,000 due in annual installments of \$55,000 to \$65,000 through July 1, 2009; bearing interest at rates ranging from 4.37% to 5.00% (4.37% at June 30, 2005)	305,000
2003 general obligation bonds of \$530,000 due in annual installments of \$12,000 to \$35,000 through January 1, 2029; bearing interest at 4.25%	518,000
	\$ 4,521,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE F- LONG TERM DEBT – Continued**

The debt services requirement to amortize general and special obligation bonds and notes as of June 30, 2005 follows:

June 30	Principal	Interest
2006	\$ 352,000	\$ 229,726
2007	365,000	232,725
2008	279,000	214,711
2009	291,000	177,439
2010	310,000	158,852
2011-2015	887,000	637,224
2016-2020	701,000	442,162
2021-2025	816,000	242,279
2026-2029	520,000	28,138
<b>Totals</b>	<b>\$ 4,521,000</b>	<b>\$ 2,363,256</b>

3. Other long-term liabilities

Outstanding  
Amount

**Note payable to CRIM (Law No. 42)** – Law No. 42 of January 26, 2000 (as amended by Law No. 146 of October 11, 2001 and Law No. 172 of August 11, 2002) was enacted to authorize the CRIM to obtain a special loan in the form of a line of credit from the Governmental Development Bank of Puerto Rico (GDB) to finance a debt the municipalities of Puerto Rico own to CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Amounts are retained from advances of property tax and amounts of municipal equalization fund send to the Municipality by the CRIM. Law No.42 was amended by Law no. 146 to extend from 10 to 30 years the financing period and by Law No. 172 to extend the debt period to June 30, 2001. On November 26, 2002 the Municipality entered into the financing agreement with the CRIM for a total amount of \$476,395, bearing interest at 6.18% and due on July 1, 2032. Debt service requirements in future years are as follows:

\$ 458,096

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE F- LONG TERM DEBT – Continued**

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 6,882	\$ 28,260
2007	7,314	27,807
2008	7,774	27,548
2009	8,262	27,310
2010	8,781	26,340
2011-2015	52,902	122,700
2016-2020	71,745	102,955
2021-2025	97,124	78,286
2026-2030	131,996	43,613
2031-2032	65,316	5,263
Totals	<u>\$ 458,096</u>	<u>\$ 490,082</u>

Outstanding  
Amount

**Note payable to CRIM (LIMS)** - On November 28, 2001 the Municipality entered into a financing agreement with the CRIM in the amount of \$172,655 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$11,578, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the CRIM. Debt service requirements in future years are as follows:

123,332

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 16,054	\$ 7,023
2007	17,025	6,049
2008	18,051	5,016
2009	19,141	3,921
2010	20,297	2,759
2011-2014	32,764	1,806
Totals	<u>\$ 123,332</u>	<u>\$ 26,574</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE F- LONG TERM DEBT – Continued**

Outstanding  
Amount

**Note payable to CRIM (Financing of delinquent accounts)**– On March 27, 2002 the Municipality entered into a financing agreement with the CRIM in the amount of \$165,479 to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a nonrevolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period the loan outstanding balance will be restructured for a 25 years period. Debt service requirements in future years are as follows:

82,153

June 30	Principal	Interest
2006	\$ 5,439	\$ 5,340
2007	-	4,986
2008	-	4,986
2009	1,319	4,948
2010	1,407	4,859
2011-2015	8,583	22,749
2016-2020	11,869	19,463
2021-2025	16,413	14,920
2026-2030	22,697	8,637
2031-2032	14,426	1,241
Totals	<u>\$ 82,153</u>	<u>\$ 92,129</u>

**Line of credit, GDB** – On February 25, 2004, the Municipality entered into a \$1,200,000 (including interest) line of credit agreement with GDB for the construction of a new city hall. Borrowings under this agreement bears interest at variable rates ((LIBOR + 1.25% ranging from 5% to 12% annually) and are payable upon maturity of the line of credit agreement in fiscal year 2006-2007. This line of credit will be repaid from Commonwealth's public improvements fund. (RC del S. 1474 of November 9, 2003)

179,682

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE F- LONG TERM DEBT – Continued**

	<u>Outstanding Amount</u>
<p><b>Payable to CRIM, final settlement 2003-2004 and 2004-2005</b> - represents the balance owed to CRIM at June 30, 2005 for excess of advances of property tax and other subsidies over final amount of property tax collections for the fiscal years ended June 30, 2004 and 2005 (see note H). This amount will be repaid with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the CRIM.</p>	117,094
<p><b>Payable to Puerto Rico Treasury Department, prior years property taxes</b> - represent advances of property taxes paid in prior years to the Municipality in excess of actual property tax revenues. This amount is currently being repaid with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the CRIM.</p>	41,734
<p><b>Compensated absences</b> - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time, represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds</p>	913,977
<p><b>Christmas Bonus</b> - represent the accrued portion corresponding to fiscal year 2004-2005 of the Christmas bonus to be paid in December 2005</p>	181,764
<p><b>Claims and judgments</b> - represent the final costs of a legal case paid subsequent to June 30, 2005. The awarded amount will be paid with unrestricted funds.</p>	27,111

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE G – PROPERTY TAXES**

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

The tax rates in force as of June 30, 2005 are 8.53% for real property (of which 8.33% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department) and 6.53% for personal property (of which 6.33% is paid by the taxpayer and .20% is reimbursed by the Puerto Rico Treasury Department). For both tax rates 1.03% belongs to the Commonwealth and 7.50% and 5.50%, respectively, belongs to the Municipality. Of the portion belonging to the Municipality, 6% on real property and 4% on personal property represents the Municipality's portion which is appropriated for general purposes and accounted in the general fund. The remaining portion of 1.50% on both tax rates belonging to the Municipality is restricted for debt service and accounted in the debt service fund.

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

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. The Municipality has a net payable to the CRIM of \$ 117,094 resulting from the final settlements for fiscal years 2003-2004 and 2004-2005. The total amount is recorded as a long term debt in the government-wide statement since will not be paid with expendable available resources.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE H – MUNICIPAL LICENSE TAXES**

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

During the fiscal year ended June 30, 2005, the tax rates were as follows:

Financial business – 1.50% of gross revenues

Other organizations - .50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$ 364,953 is recorded as deferred revenues.

**NOTE I – INTERGOVERNMENTAL REVENUES**

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

	Amount
Amount of municipal equalization fund and subsidy send by CRIM	\$ 3,546,855
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	956,168
Reimbursement from Commonwealth Government - Christmas Bonus expenditures	155,798
Puerto Rico Department of Labor – Law No.52	1,179,536
Other intergovernmental revenues	49,252
	\$ 5,887,609

**NOTE J – FUND BALANCE RESTATEMENTS**

1. Fund balances

Certain special funds with self imposed restrictions and previously reported as special revenue and capital project funds were reclassified to the general fund and other special funds were reclassified from the general fund to other governmental funds. In addition, the beginning fund balance of the General Fund, the Commonwealth Legislative Grants Fund and certain other governmental funds has been restated to recognize corrections of accounting errors. The following schedule reconciles the fund balance at July 1, 2004 as previously reported to the beginning fund balance, as restated:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE J – FUND BALANCE RESTATEMENTS – Continued**

Fund	Balance at beginning of year, as previously reported	Prior period adjustments		Balance at beginning of year, as restated
		Fund reclassifications	Correction of errors	
General fund	\$ 75,280	\$ (383,819)	\$ (23,512)	\$ (332,051)
Commonwealth Legislative Resolutions	3,894,554	-	102,767	3,997,321
Debt service	208,966	-	-	208,966
Community Development Block Grant	-	-	-	-
Other governmental funds	369,009	383,819	(277,078)	475,750
<b>Total</b>	<b>\$ 4,547,809</b>	<b>\$ -</b>	<b>\$ (197,823)</b>	<b>\$ 4,349,986</b>

**2. Net assets**

Net assets at beginning of year have been adjusted to reflect the following restatements:

Net assets at beginning of year as previously reported:	Amount
	\$ 17,423,635
Restatements:	
Net correction of errors - capital assets	(53,478)
Other correction of errors	321,222
Net assets at beginning of year as restated:	<u>\$ 17,691,379</u>

83,806      618,289

**NOTE K – RETIREMENT PLAN**

**1. 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 non-occupational 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE K – RETIREMENT PLAN - continued**

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 (System 2000). 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.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. 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 subject to the total accumulate 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 have not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

**2. Funding policy**

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. 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 9.725% 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:

Fiscal year ended:	Law No. 447	System 2000
2005	\$ 109,917	\$ 76,393
2004	\$ 114,374	\$ 57,077
2003	\$ 114,509	\$ 53,814

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE L – COMMITMENTS**

1. Operating leases

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted approximately \$ 19,043. Management believes that the summary of the future minimum rental commitments under noncancelable operating leases with terms exceeding one year is not significant.

2. Construction

The Municipality has commitments at June 30, 2005 of approximately \$ 1,672,360 for design, construction, improvements or renovation of certain municipal facilities.

**NOTE M – CONTINGENCIES**

1. Federal and State Grants

Projects financed by the 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. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

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 would not be covered by insurance. As a result of one settled case as of June 30, 2005 and not to be covered by insurance, the Municipality accrued \$27,111 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsel that based on their experience, such actions and the potential liabilities will not impair the Municipality's financial position.

**NOTE N – SPECIAL ITEMS**

Law No. 74 of March 1, 2004 approved by the Commonwealth's Legislature (as amended by Law No. 131 of June 1, 2004) granted to taxpayers (for the period March 1, 2004 to June 30, 2004) an amnesty for payment of real and personal property tax debts. As a result, the CRIM distributed to the Municipality \$71,562 on property tax collections as of June 30, 2005 of which \$22,313 were recorded in the general fund and \$49,249 recorded in the debt service fund. The transaction falls under the definition of special item set forth by current standards, as it is a transaction of unusual or infrequent nature within the control of Municipality's management.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE O – FUND BALANCE DEFICITS**

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

	<u>Amount</u>
Special Communities	\$ 190,094
Rural Development	\$ 152,035
Public Order Code	\$ 80,257
Temporary Assistance for Needy Families (TANF)	\$ 58,205
Economic Development Administration-EDA	\$ 54,716
Federal Emergency Management Agency	\$ 11,858
Child Care	\$ 9,000

The deficits results from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement-based (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

**NOTE P – SUBSEQUENT EVENTS**

1. Issuance of general obligation bonds

On July 1, 2005, the municipality issued \$645,000 general obligation bonds through the Governmental Development Bank of Puerto Rico (GDB) to finance the purchase of equipment. Bonds are payable in annual installments of \$80,000 to \$115,000 through July 1, 2012.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property taxes	\$ 1,497,385	\$ 1,528,741	\$ 1,528,741	\$ -
Municipal license tax	420,000	420,000	512,507	92,507
Intergovernmental	3,906,907	3,906,907	4,034,867	127,960
Fees, fines and charges for services	902,000	902,000	783,712	(118,288)
Interest	45,000	45,000	19,954	(25,046)
Other	20,000	20,000	18,429	(1,571)
<b>Total revenues</b>	<u>6,791,292</u>	<u>6,822,648</u>	<u>6,898,210</u>	<u>75,562</u>
<b>EXPENDITURES:</b>				
General government	3,215,125	3,411,067	3,453,757	(42,690)
Public works and sanitation	1,802,617	1,935,052	1,932,766	2,286
Public safety	948,489	759,227	756,752	2,475
Culture and recreation	319,793	286,313	284,374	1,939
Health	320,367	320,367	320,367	0
<b>Total expenditures</b>	<u>6,606,392</u>	<u>6,712,026</u>	<u>6,748,016</u>	<u>(35,990)</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	184,900	110,623	150,194	39,572
<b>Other financing sources (uses)</b>				
Transfers out	(184,900)	(187,906)	(187,905)	1
<b>Total other financing sources (uses)</b>	<u>(184,900)</u>	<u>(187,906)</u>	<u>(187,905)</u>	<u>1</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<u>\$ -</u>	<u>\$ (77,283)</u>	<u>\$ (37,711)</u>	<u>\$ 39,573</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF RINCON**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –**  
**BUDGETARY COMPARISON SCHEDULE**  
**JUNE 30, 2005**

**NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING**

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1981, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared. Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level. The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

**NOTE B - BUDGET READJUSTMENT**

Article 8.006 of the Municipal Law of 1991, as amended, establish that in emergency situations (as specified by law) the Mayor may authorize the Finance Director to incur in expenditures up to 5% of the total annual operating budget. During the fiscal period the Municipality approved a \$77,283 readjustment to the general fund budget due to an emergency situation caused by Tropical Storm Jeanne.

**NOTE C - BUDGET TO GAAP RECONCILIATION**

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF RINCON**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**June 30,2005**

**NOTE C - BUDGET TO GAAP RECONCILIATION - Continued**

<b>Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):</b>	<b>\$ (37,711)</b>
Budget to GAAP differences:	
<b>Entity differences:</b>	
Non budgeted funds recorded as revenues for financial reporting purposes:	1,271,937
Non budgeted funds recorded as expenditures for financial reporting:	(1,188,640)
Non budgeted transfers in:	105,214
Non budgeted other financing sources (uses):	13,853
<b>Basis of accounting differences:</b>	
Revenues recorded for financial reporting purposes but not in budgetary basis:	28,058
Revenues recorded in budgetary basis purposes but not in financial reporting:	(42,000)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	14,557
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(82,796)
<b>Timing differences:</b>	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	7,535
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(1,981)
<b>Net change in fund balance (GAAP basis):</b>	<b><u>\$ 88,026</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number (note B)</u>	<u>Pass-Through Entity Identifying Number (note C)</u>	<u>Federal Expenditures (note A)</u>
<b><u>U.S. Department of Agriculture</u></b>			
Non-Major Program:			
Passed through the P.R. Department of Education: Child and Adult Care Food Program	10.558	N/AV	\$ 6,460
Major Program:			
Direct program: Water and Waste Disposal Systems for Rural Communities	10.760	N/A	1,041,772
			<u>1,048,233</u>
<b><u>U.S. Department of Commerce</u></b>			
Non-Major Program:			
Direct program: Grants for Public Works and Economic Development	11.300	N/A	14,250
<b><u>U.S. Department of Housing and Urban Development</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	1,049,782
Non-Major Program:			
Direct program: Section 8 Housing Choice Vouchers	14.871	N/A	120,228
			<u>1,170,010</u>
<b><u>Federal Emergency Management Agency</u></b>			
Non-Major Programs:			
Passed through the Puerto Rico Governor's Office - (Governor's (Governor's Authorized Representative-GAR): Public Assistance Grants	83.544	N/AV	173,590
Passed through the Puerto Rico State Emergency Management Agency - (PREMA): Hazard Mitigation Grant	97.039	PDMC-PL-02-PR-2003-041	11,858
			<u>185,448</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
Non-Major Programs:			
Passed through the P.R. Department of Family-Families and Temporary Assistance for Needy Families	93.558	N/AV	58,205
Passed through the P.R. Department of Family-Families and Children Administration: Child Care and Development Block Grant	93.575	2003-2004-039 2004-2005-049	131,369
			<u>189,574</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 2,607,515</u></u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2005**

**NOTE A – BASIS OF PRESENTATION**

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 Governments and Nonprofit Organizations". Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

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

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

Description	Community Development Block Grant Program	Other Governmental Funds
10.558	\$ -	\$ 6,460
10.760	-	1,041,772
11.300	-	14,250
14.228	1,049,782	-
14.871	-	120,228
83.544	-	173,590
97.039	-	11,858
93.558	-	58,205
93.575	-	131,369
Total federal awards expenditures:	1,049,782	1,557,732
Total non-federal awards expenditures:	-	2,513,985
Total expenditures, fund statements:	\$ 1,049,782	\$ 4,071,717

# VALDES, GARCIA & MARIN

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

**PARTNERS:**

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## **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 Rincon  
Rincon, Puerto Rico*

We have audited the financial statements of the Municipality of Rincon as of and for the year ended June 30, 2005, and have issued our report thereon dated December 22, 2005, in which we have expressed an unqualified opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether the Municipality of Rincon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item **2005 II-2**.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Municipality'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 an opinion on the internal control over financial reporting. However, we noted certain matters involving control over financial reporting and its operations 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 the Municipality'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 **2005 II-1** to **2005 II-2**.

A material weakness is a reportable 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 caused by error or fraud 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 **2005 II-1** to **2005 II-2** in the accompanying schedule of findings and questioned costs to be material weaknesses.

We also noted certain additional matters that we reported to management of the Municipality in a separate letter dated December 22, 2005.

This report is intended for the information of the Municipality's management, Commonwealth and Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico  
December 22, 2005



Stamp 2109894 was affixed  
to the original

# VALDES, GARCIA & MARIN

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

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## 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 Rincon  
Rincon, Puerto Rico*

### **Compliance**

We have audited the compliance of the Municipality of Rincon, Puerto Rico (the Municipality) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

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

We were unable to obtain sufficient documentation supporting the compliance of the Municipality with *Water and Waste Disposal Systems for Rural Communities* program regarding *Davis-Bacon Act* requirements, as described in the accompanying schedule of findings and questioned costs as item **2005 III-1**.

In our opinion, except for the effects of such compliance, if any, as might have been able to examine sufficient evidence regarding the Municipality's compliance with *Water and Waste Disposal Systems for Rural Communities* program regarding *Davis-Bacon Act* requirements, the Municipality of Rincon complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

### **Internal Control Over Compliance**

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with 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, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable condition is described in the accompanying schedule of findings and questioned costs as item **2005 III-1**.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relative low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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 considered the reportable condition described above, item **2005 III-1** to be a material weakness.

This report is intended for the information of the management of the Municipality, Commonwealth and Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico  
December 22, 2005

A handwritten signature in blue ink, appearing to read "Valdis, Garcia M". The signature is written in a cursive style with a long horizontal stroke at the end.

Stamp 2109895 was affixed  
to the original

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Section I - Summary of Auditor's Results**

Year ended June 30, 2005

**Part I - Financial Statements**

- |  |   |  |
|--|---|--|
| 1. Type of auditor's report issued   | <input checked="" type="checkbox"/> Unqualified opinion<br><input type="checkbox"/> Adverse opinion | <input type="checkbox"/> Qualified opinion<br><input type="checkbox"/> Disclaimer of opinion |
| 2. Material weakness(es) identified?   | <input checked="" type="checkbox"/> Yes   | <input type="checkbox"/> No  |
| 3. Reportable condition(s) identified that are not considered to be material weakness? | <input type="checkbox"/> Yes  | <input checked="" type="checkbox"/> No   |
| 4. Noncompliance material to financial statements noted?                               | <input checked="" type="checkbox"/> Yes   | <input type="checkbox"/> No  |

**Part II - Federal Awards**

Internal control over major programs:

- |   |  |   |
|---|--|---|
| 1. Material weakness(es) identified?  | <input checked="" type="checkbox"/> Yes  | <input type="checkbox"/> No   |
| 2. Reportable condition(s) identified that are not considered to be material weakness(es)?                                | <input type="checkbox"/> Yes   | <input checked="" type="checkbox"/> No  |
| 3. Type of auditor's report issued on compliance for major programs:  | <input type="checkbox"/> Unqualified opinion<br><input type="checkbox"/> Adverse opinion | <input checked="" type="checkbox"/> Qualified opinion<br><input type="checkbox"/> Disclaimer of opinion |
| 4. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | <input checked="" type="checkbox"/> Yes  | <input type="checkbox"/> No   |

5. Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant - State's Program
10.760	Water and Waste Disposal for Rural Communities

- |   |   |
|---|---|
| 6. Dollar threshold used to distinguish between type A and type B programs: | <input checked="" type="checkbox"/> \$300,000                       |
| 7. Auditee qualified as low-risk auditee?                                   | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No |

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCÓN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2005

**Section II – Financial Statements Findings Reported in Accordance with  
Government Auditing Standards:**

**Reference Number:** 2005 II-1

**Area:** Accounting records and reports

**Type:** Material Weakness

**Criteria:** The Municipality should establish internal control policies and procedures to maintain adequate, complete and reconciled accounting records and reports. Accounting principles generally accepted in the United States of America require financial transactions to be recorded in accounting records properly reconciled with subsidiaries or supporting records and reports.

**Condition:** Our tests of the Municipality's accounting records disclosed the following:

(1). The Municipality has not maintained a general ledger to post and register its financial transactions. In addition, has not established a complete set of manual accounting records properly balanced and has not established procedures for reconciliation with the computerized accounting system. Certain records ( such as "libro de caja") are not being properly maintained. The financial statements have been prepared from other alternative sources, including manual subsidiary records and reports.

(2). There are significant transactions and amounts included as reconciling items in bank conciliations of General Fund, Commonwealth's Legislative Resolutions, Plaza BA EDA, Código de Orden Público, Ley 52 and Centro de Cuidado Diurno.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCÓN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2005

**Section II – Financial Statements Findings Reported in Accordance with  
Government Auditing Standards:**

**Reference Number:** 2005-II-1 – continued

**Cause:** The Municipality has not established procedures to maintain a complete and reconciled set of accounting records. The Finance Department does not have trained personnel in accounting controls and personnel lacks adequate supervision and monitoring of financial reporting process. Significant amounts included as reconciling items in bank conciliations arise primarily from amounts adjusted by banks but not in the accounting records, amounts deposited into erroneous bank accounts and accounting errors.

**Effect:** As a result of the inadequacy of accounting records in this area, the financial statements have been prepared from other alternative sources, including manual subsidiary records and reports.

**Recommendation:** The Municipality should start immediately an implementation process of a complete set of accounting records and reports properly reconciled. The process should include hiring or transfers of employees with knowledge of accounting principles related to governmental financial reporting. This personnel should be properly trained, monitored and supervised to assure achievement of financial reporting objectives.

**Views of responsible officials and planned corrective actions:** See accompanying corrective action plan submitted by management as part of this audit report.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCÓN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2005

**Section II – Financial Statements Findings Reported in Accordance with  
Government Auditing Standards:**

**Reference Number:** 2005 II-2  
**Area:** **Inter-fund transactions – advances from/to other funds**  
**Type:** **Material weakness and material instance of noncompliance**

**Criteria:** The Municipality should not make loans from restricted grant funds for operational purposes as established by internal control policies and municipal regulations. For loans already made, funds should be provided (from the general fund) to reimburse restricted grant funds.

**Condition:** Since previous years the general fund owes to the Commonwealth's Legislature Grant Funds of \$694,738 advanced to finance certain operational transactions as follows:

- (1). \$280,000 paid in June 2000 to finance payroll expenditures,
- (2). \$61,780 paid in December 2000 to finance the Christmas Bonus and
- (3) \$352,958 paid on January 2, 2001 for payment of a settled legal case.

As of June 30, 2005 the Municipality has not provided funds to repay to the Commonwealth's Legislature Grants Funds the advances referred to above.

**Cause:** In fiscal year periods 1999-2000 and 2000-2001 the Municipality suffered cash flow problems. Funds were used from restricted grants to pay operational or unrestricted type expenditures. The Municipality has continued to have financial problems which, as stated by the Municipality's management, prevent to provide funds for reimbursement.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCÓN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2005

**Effect:** The Municipality has not complied with established internal control policies and municipal regulations. These advances have been recognized in the basic financial statements as advances from other funds and comprise a significant part of the general fund's fund balance.

**Recommendation:** The Municipality should enter into a payment plan to reimburse advanced funds to the Commonwealth's Legislature Grants Fund.

**Views of responsible officials and planned corrective actions:** See accompanying corrective action plan submitted by management as part of this audit report.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCÓN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2005

**Section III – Federal Award Findings and Questioned Costs Reported in Accordance with OMB Circular A-133:**

**Reference Number:** 2005 III-1  
**Agency:** U. S. Department of Agriculture – Rural Development  
**Program:** Water and Waste Disposal Systems for Rural Communities  
**CFDA Number:** 10.760  
**Project:** Construction of Sanitary Sewer System, Barreros Ward  
**Regulation/Requirement:** Davis-Bacon Act  
**Type:** Material weakness and material instance of noncompliance  
**Questioned Costs:** \$ -0-

**Criteria:** The Davis-Bacon Act and the DOL regulations (29 CFR part 5, “Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction”) requires the for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). The requirements for Davis-Bacon are also contained in the A-102 Common Rule and OMB Circular A-110.

**Condition:** The Municipality has not performed the contractor’s payrolls review.

**Cause:** The Municipality has not assigned to a specific department or responsible employee duties related to contractor’s payroll review for compliance with Davis-Bacon Act requirements for Rural Development funds.

**Effect:** There is no evidence to support the compliance of applicable requirements. Contractor may have paid at rates other than prevailing rate and not timely detected and corrected.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCÓN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2005

**Recommendation:** The Municipality should assign to a specific department or responsible employee duties related to contractor's payrolls review to determine compliance with Davis-Bacon Act requirements.

**Views of responsible officials and planned corrective actions:** See accompanying corrective action plan submitted by management as part of this audit report.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCÓN**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Financial Statement Findings Reported in Accordance with *Government Auditing Standards*:**

Fiscal Year ended <u>June 30,</u>	Finding <u>No.</u>	<u>Condition</u>	<u>Status</u>
2004	2004 II-1	The Municipality has not properly implemented and established internal controls and procedures to maintain adequate, complete and reconciled set of accounting records and reports.	Audit report and related findings have not been cleared by the pass-through entity, the Office of Commissioner of Municipal Affairs ( OCAM ). See current year finding number <b>2005 II-1</b> in the accompanying schedule of findings and questioned costs.
2004	2004 II-2	The Municipality received from the Commonwealth's Legislature certain grants funds which are restricted for specific purposes. Certain general fund expenditures have been financed with these restricted grant funds, which is not in accordance with grantor's established purposes.	Audit report and related findings have not been cleared by the pass-through entity, the Office of Commissioner of Municipal Affairs ( OCAM ). See current year finding number <b>2005 II-2</b> in the accompanying schedule of findings and questioned costs.
2004	2004 II-3	The Municipality has no adequate billing and collection procedures established to assure proper and timely repayment of advances. Accounting of advances and reimbursements is also not adequate.	Situation was corrected

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCÓN**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Financial Statement Findings Reported in Accordance with *Government Auditing Standards*:**

<u>Fiscal Year ended June 30,</u>	<u>Finding No.</u>	<u>Condition</u>	<u>Status</u>
1998 1999, 2000 2001, 2002	98 II-1, 99 II-2, 2000 II-1, 2001 II-1, 2002 II-1	The Municipality has not established adequate controls and procedures to assure the completeness, existence and valuation of fixed assets inventories.	Audit report and related findings have not been cleared by the pass-through entity, the Office of Commissioner of Municipal Affairs ( OCAM ).
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)	Audit report and related findings have not been cleared by the pass-through entity, the Office of Commissioner of Municipal Affairs ( OCAM ).
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 on the recommendation of the Recreational Development Company of Puerto Rico ( a state governmental agency ).	Audit report and related findings have not been cleared by the pass-through entity, the Office of Commissioner of Municipal Affairs (OCAM).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCÓN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2005

**Financial Statement Findings Reported in Accordance with *Government Auditing Standards*:**

<u>Fiscal Year</u> <u>ended</u> <u>June 30,</u>	<u>Finding</u> <u>No.</u>	<u>Condition</u>	<u>Status</u>
		<p>This recommendation authorized the Municipality to award the bid for the budget amount the Municipality had available with an agreement to obtain the total additional funds within six months. The Municipality decided to contract the construction project in three stages based on availability of funds. The total amounts 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>	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned Costs Reported in Accordance with OMB Circular A-133**

Fiscal year ended <u>June 30,</u>	<u>Program</u>	<u>Number</u>	<u>Condition</u>	<u>Status</u>
2004	US D of A - Rural Development: Water and Waste Disposal System for Rural Communities-CFDA No. 10.760	2004 III-1	The Municipality has not performed the contractor's payroll review.	Audit report and related findings have not been cleared by the pass-through entity, the Office of Municipal Affairs (OCAM). See current year finding number <b>2005 III-1</b> in the accompanying schedule of findings and questioned costs.
2004	US D of A - Rural Development: Water and Waste Disposal System for Rural Communities-CFDA No. 10.760	2004 III-2	A complete and balanced general ledger has not been maintained by the Municipality. Program transactions are recorded in revenue and expenditures subsidiary records.	Finding was corrected.
2004	US Department of Commerce: Grants for Public Works and Economic Development Facilities – CFDA No. 11.300	2004 III-3	In 2 cases the Municipality has excess cash in bank for an unreasonable period of time after transfer of funds by the Federal Government.	Audit report and related findings have not been cleared by the pass-through entity, the Office of Municipal Affairs (OCAM).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2005

**Federal Awards Findings and Questioned Costs Reported in Accordance with OMB Circular A-133**

<u>Fiscal year ended June 30,</u>	<u>Program</u>	<u>Number</u>	<u>Condition</u>	<u>Status</u>
2004	US Department of Commerce: Grants for Public Works and Economic Development Facilities – CFDA No. 11.300	2004 III-4	The required certified payrolls were not submitted weekly. There is no adequate evidence to support the contractor’s payrolls review at the federal programs office.	Audit report and related findings have not been cleared by the pass-through entity, the Office of Municipal Affairs (OCAM).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Award Findings and Questioned Costs Reported in Accordance with OMB Circular A-133**

Fiscal year ended <u>June 30,</u>	<u>Program</u>	<u>Number</u>	<u>Condition</u>	<u>Status</u>
2004	US Department of Commerce: Grants for Public Works and Economic Development Facilities – CFDA No. 11.300	2004 III-5	The Municipality did not prepare the financial Reports.	Audit report and related findings have not been cleared by the pass-through entity, the Office of Municipal Affairs (OCAM).
2004	US Department of Commerce: Grants for Public Works and Economic Development Facilities – CFDA No. 11.300	2004 III-6	A complete and balance general ledger has not been maintained by the Municipality. Program transactions are recorded in revenue and expenditures subsidiary records.	Finding was corrected.
2004	US Department of HUD: Community Development Block Grant State’s Program CFDA No. 14.228	2004 III-7	Program general ledgers maintained by the Federal Programs Office are incomplete and not balanced.	Finding was corrected.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned Costs Reported in Accordance with OMB Circular A-133**

Fiscal year  
ended  
June 30,

	<u>Program</u>	<u>Number</u>	<u>Condition</u>	<u>Status</u>
2003	US Department of HUD: Community Development Block Grant State's Program- CFDA No. 14.228	2003 III-1	Our tests to a sample of 7 participant's files (from a population of 16 files) of the materials donation program disclosed that certain documents were missing from files.	Audit report and related findings have not been cleared by the pass-through entity, the Office of Municipal Affairs (OCAM).
2003	US Department of Commerce: Grants for Public Works and Economic Development Facilities – CFDA No. 11.300	2003 III-3	As stated in the grant agreement between the Municipality and the federal grantor the Municipality is required to submit to the federal agency a financial report that provides information on the amount of allowable project expenses that has been incurred but not claimed for reimbursement as of the end of the period. The report would be as of September 30 of each year and must be submitted annually until the final grant payment is made by EDA. The report should be submitted to EDA not later than October 30 of each year. The report have not been prepared and submitted by the Municipality.	Finding not cleared.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned Costs Reported in Accordance with OMB Circular A-133**

Fiscal year ended <u>June 30,</u>	<u>Program</u>	<u>No.</u>	<u>Condition</u>	<u>Status</u>
2003	US Department of Commerce: Grants for Public Works and Economic Development Facilities – CDFA No. 11.300	2003 III-4	The Municipality is required to establish and place in operation adequate internal controls to provide reasonable assurance that contractors paid the prevailing wages rates for projects covered by the Davis-Bacon Act. Our tests disclosed that there is no evidence that the Municipality is performing on site visits to monitor classification and wage rates.	Finding not cleared.
2003	US Department of Commerce: Grants for Public Works and Economic Development Facilities – CDFA No. 11.300	2003 III-5	The Municipality is required to establish and place in operation adequate internal controls to require each of its contractors employed in the completion of the project to comply with procurement, suspension and debarment policies. There is no evidence of project contractor's certification of compliance with referred requirements.	Finding not cleared.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned Costs Reported in Accordance with OMB Circular A-133**

Fiscal year Ended <u>June 30,</u>	<u>Program</u>	<u>No.</u>	<u>Condition</u>	<u>Status</u>
2003	US Department of Commerce: Grants for Public Works and Economic Development Facilities – CDFA No. 11.300	2003 III-6	The project contractor was obligated to make a documented good faith effort on this project to employ the unemployed/ underemployed residents of the Municipality of Rincon. Records should be provided to the Municipality. There is no evidence of compliance with this requirement.	Finding not cleared.
2002	US Department of HUD: Community Development Block Grant State’s Program-CDFA No. 14.228	2002 III-1	Our tests to a sample of six participant’s files of materials donations program financed with SBGP funds disclosed that certain documents were missing from files.	Audit report and related findings have not been cleared by the pass-through entity, the Office of Commissioner of Municipal Affairs (OCAM).
2001	US Department of HUD: Community Development Block Grant State’s Program-CDFA No. 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.	Audit report and related findings have not been cleared by the pass-through entity, the Office of Commissioner of Municipal Affairs (OCAM).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned Costs Reported in Accordance with OMB Circular A-133**

Fiscal year ended <u>June 30</u>	<u>Program</u>	<u>No.</u>	<u>Condition</u>	<u>Status</u>
2001	US Department of HUD: Community Development Block Grant State's Program-CDFA No. 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 contracts nor a certification was obtained from contractors.	Audit report and related findings have not been cleared by the pass-through entity, the Office of Commissioner of Municipal Affairs (OCAM).
2000	US Department of HUD: Community Development Block Grant State's Program-CDFA No. 14.228	2000 III-1	A service contract not provided for examination.	Audit report and related findings have not been cleared by the pass-through entity, the Office of Commissioner of Municipal Affairs (OCAM). Related questioned cost of \$548,751 remains unclear.
1997	US Department of HUD: Community Development Block Grant State's Program-CDFA No. 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.	Audit report and related findings have not

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the year ended June 30, 2005

**Federal Awards Findings and Questioned Costs Reported in Accordance with OMB Circular A-133**

been cleared by the pass-through entity, the Office of Commissioner of Municipal Affairs (OCAM).

Municipality of Rincon  
Findings and Corrective Actions  
Year ended June 30, 2005

**Reference number : 2005 II-1**

**Area : Accounting records and report**

**Type : Material weakness**

**Recommendation :** The Municipality should start immediately an implementation process of a complete set of accounting records and reports properly reconciled. The process should include hiring or transfers of employees with knowledge of accounting principles related to governmental financial reporting. This personnel should be properly trained, monitored and supervised to assure achievement of financial reporting objectives.

**Corrective Actions:**

- 1) The Finance Department will give priority to properly implement and establish internal controls and procedures to maintain adequate, complete and reconciled set of accounting records and reports.
- 2) Presently we are identifying the funds and adjustments between the bank accounts and Commonwealth's Legislature Funds.
- 3) The Finance Department will perform the implementation process of a complete set of accounting records and reports properly reconciled.

**Reference number : 2005 II-2**

**Area : Inter-fund transactions – advances from/to other funds**

**Type : Material weakness and material instance of noncompliance**

**Recommendation :** The Municipality should enter into a payment plan to reimburse advanced funds to the Commonwealth's Legislative Grants Fund.

**Corrective Action :** The Municipality in the future will consider to establish the payment plan without affecting essential services to the citizens.

Municipality of Rincon  
Findings and Corrective Actions  
Year ended June 30, 2005

**Reference number : 2005 III-1**  
**Agency : U.S. Department of Agriculture – Rural Development**  
**Program : Water and Waste Disposal Systems for Rural Communities**  
**CFDA : 10.760**  
**Project : Construction of Sanitary Sewer System, Barreros Ward**  
**Regulation : Davis-Bacon Act**  
**Type : Material weakness and material instance of noncompliance**  
**Questioned Costs : \$ -0-**

**Recommendation :** The Municipality should assign to a specific department or responsible employee duties related to contractor's payrolls review to determine compliance with Davis-Bacon Act requirements.

**Corrective Action :** The Municipality will assign a specific person to review future contractor's payroll review and determine contractor's compliance with Davis-Bacon Act requirements for Rural development funds.

**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

▶ 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 Items 4 and 7)**

<p><b>1. Fiscal period ending date for this submission</b></p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">Month</td> <td style="text-align: center;">Day</td> <td style="text-align: center;">Year</td> </tr> <tr> <td style="text-align: center;">06</td> <td style="text-align: center;">30</td> <td style="text-align: center;">05</td> </tr> </table> <p>Fiscal Period End Dates Must Be In 2004, 2005, or 2006</p>	Month	Day	Year	06	30	05	<p><b>2. Type of Circular A-133 audit</b></p> <p>1 <input checked="" type="checkbox"/> Single audit    2 <input type="checkbox"/> Program-specific audit</p>														
Month	Day	Year																			
06	30	05																			
<p><b>3. Audit period covered</b></p> <p>1 <input checked="" type="checkbox"/> Annual    2 <input type="checkbox"/> Biennial    3 <input type="checkbox"/> Other - <input type="text"/> Months</p>	<p><b>4. FEDERAL GOVERNMENT USE ONLY</b></p> <p>Date received by Federal clearinghouse</p>																				
<p><b>5. Auditee Identification Numbers</b></p> <p><b>a. Primary Employer Identification Number (EIN)</b></p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:20px; text-align: center;">6</td> <td style="width:20px; text-align: center;">6</td> <td style="width:20px; text-align: center;">-</td> <td style="width:20px; text-align: center;">0</td> <td style="width:20px; text-align: center;">4</td> <td style="width:20px; text-align: center;">3</td> <td style="width:20px; text-align: center;">3</td> <td style="width:20px; text-align: center;">5</td> <td style="width:20px; text-align: center;">2</td> <td style="width:20px; text-align: center;">9</td> </tr> </table> <p><b>d. Data Universal Numbering System (DUNS) Number</b></p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:20px; text-align: center;"> </td> <td style="width:20px; text-align: center;"> </td> <td style="width:20px; text-align: center;">-</td> <td style="width:20px; text-align: center;"> </td> <td style="width:20px; text-align: center;"> </td> <td style="width:20px; text-align: center;"> </td> <td style="width:20px; text-align: center;">-</td> <td style="width:20px; text-align: center;"> </td> <td style="width:20px; text-align: center;"> </td> <td style="width:20px; text-align: center;"> </td> </tr> </table>		6	6	-	0	4	3	3	5	2	9			-				-			
6	6	-	0	4	3	3	5	2	9												
		-				-															

**6. AUDITEE INFORMATION**

<b>a. Auditee name</b> MUNICIPALITY OF RINCON	
<b>b. Auditee address (Number and street)</b> PO BOX 97 City RINCON State                      ZIP + 4 Code PR                              0 0 6 7 7 -	
<b>c. Auditee contact Name</b> MRS. NILSA SOTO Title FINANCE DIRECTOR	
<b>d. Auditee contact telephone</b> ( 787 ) 823 - 2575	
<b>e. Auditee contact FAX</b> ( 787 ) 823 - 2454	
<b>f. Auditee contact E-mail</b> compras-rincon@hotmail.com	

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

<b>a. Auditor name</b> VALDES, GARCIA & MARTIN	
<b>b. Auditor address (Number and street)</b> PO BOX 364831 City SAN JUAN State                      ZIP + 4 Code PR                              0 0 9 3 6 - 4 8 3 1	
<b>c. Auditor contact Name</b> ARTURO GARCIA, CPA Title PARTNER	
<b>d. Auditor contact telephone</b> ( 787 ) 725 - 1600	
<b>e. Auditor contact FAX</b> ( 787 ) 721 - 2795	
<b>f. Auditor contact E-mail</b> vqmarin.@vqmarin.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.

Signature of certifying official	Date Month    Day    Year
/                      /	
Printed Name of certifying official MRS. NILSA SOTO	
Printed Title of certifying official FINANCE DIRECTOR	

**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 7, 8, and 9a-9f, 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 auditor 	Date Month    Day    Year
1 / 12 / 06	

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

1. Type of audit report  
 Mark either: 1  Unqualified opinion **OR**  
 any combination of: 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. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1  Yes 2  No
2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § \_\_.520(b)) \$ 300,000
3. Did the auditee qualify as a low-risk auditee? (§ \_\_.530) 1  Yes 2  No
4. Is a reportable condition disclosed for any major program? (§ \_\_.510(a)(1)) 1  Yes 2  No - SKIP to Item 6
5. Is any reportable condition reported as a material weakness? (§ \_\_.510(a)(1)) 1  Yes 2  No
6. Are any known questioned costs reported? (§ \_\_.510(a)(3) or (4)) 1  Yes 2  No
7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ \_\_.315(b)) 1  Yes 2  No

8. 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)
- |  |   |   |   |
|--|---|---|---|
| 98 <input type="checkbox"/> U.S. Agency for International Development<br>10 <input checked="" type="checkbox"/> Agriculture<br>23 <input type="checkbox"/> Appalachian Regional Commission<br>11 <input checked="" type="checkbox"/> Commerce<br>94 <input type="checkbox"/> Corporation for National and Community Service<br>12 <input type="checkbox"/> Defense<br>84 <input type="checkbox"/> Education<br>81 <input type="checkbox"/> Energy<br>66 <input type="checkbox"/> Environmental Protection Agency | 83 <input type="checkbox"/> Federal Emergency Management Agency<br>39 <input type="checkbox"/> General Services Administration<br>93 <input type="checkbox"/> Health and Human Services<br>97 <input type="checkbox"/> Homeland Security<br>14 <input type="checkbox"/> Housing and Urban Development<br>03 <input type="checkbox"/> Institute of Museum and Library Services<br>15 <input type="checkbox"/> Interior<br>16 <input type="checkbox"/> Justice<br>17 <input type="checkbox"/> Labor<br>09 <input type="checkbox"/> Legal Services Corporation | 43 <input type="checkbox"/> National Aeronautics and Space Administration<br>89 <input type="checkbox"/> National Archives and Records Administration<br>05 <input type="checkbox"/> National Endowment for the Arts<br>06 <input type="checkbox"/> National Endowment for the Humanities<br>47 <input type="checkbox"/> National Science Foundation<br>07 <input type="checkbox"/> Office of National Drug Control Policy<br>59 <input type="checkbox"/> Small Business Administration | 96 <input type="checkbox"/> Social Security Administration<br>19 <input type="checkbox"/> U.S. Department of State<br>20 <input type="checkbox"/> Transportation<br>21 <input type="checkbox"/> Treasury<br>82 <input type="checkbox"/> United States Information Agency<br>64 <input type="checkbox"/> Veterans Affairs<br>00 <input type="checkbox"/> None<br><input type="checkbox"/> Other - Specify:<br><span style="border: 1px solid black; display: inline-block; width: 100px; height: 15px; margin-top: 5px;"></span><br><span style="border: 1px solid black; display: inline-block; width: 100px; height: 15px; margin-top: 5px;"></span> |
|--|---|---|---|

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 Federal cognizant agency .....

Count total number of boxes marked above and submit this number of reporting packages ..... 3

FORM SF-SAC (5-2004)

**PART III FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)
Federal Agency Prefix <sup>7</sup> (a)	Extension <sup>2</sup> (b)					Major program (g)	If yes, type of audit report <sup>3</sup> (h)		
10	558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 6 460 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		0	N/A
10	760	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WATER AND WASTE DISPOSAL SYSTEM FOR RURAL COMMUNITIES	\$1 041 773 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	D	2005 TTT-1
11	300	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	GRANTS FOR PUBLIC WORKS AND ECONOMIC DEVELOPMENT	\$ 14 250 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		0	N/A
14	228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT - STATE'S PROGRAM	\$1 049 782 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	0	N/A
14	871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 120 228 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		0	N/A
83	544	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANCE GRANTS	\$ 173 590 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		0	N/A
97	039	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HAZARD MITIGATION GRANT	\$ 11 858 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		0	N/A
93	558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	\$ 58 205 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		0	N/A
93	575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 131 369 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		0	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
<b>TOTAL FEDERAL AWARDS EXPENDED</b> →				<b>\$2 607 515 .00</b>	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> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

<sup>4</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
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis - Bacon Act

- E. Eligibility
- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds

- I. Procurement and suspension and debarment
- J. Program income
- K. Real property acquisition and relocation assistance

- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions
- O. None
- P. Other

<sup>5</sup> N/A for NONE



## **INSTRUCTIONS FOR COMPLETING FORM SF-SAC, REPORTING ON AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS FOR FISCAL PERIODS ENDING IN 2004, 2005 OR 2006**

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is OMB No. 0348-0057. The time required to complete this data collection form is estimated to average 59 hours for large auditees (i.e., auditees most likely to administer a large number of Federal awards) and 17 hours for all other auditees. These amounts reflect estimates of reporting burden on both auditees and auditors relating to the Form SF-SAC, including the time to review instructions, obtain the needed data, and complete and review the information.

Beginning with 2004 audit year submissions, the Office of Management and Budget (OMB) Circular A-133 (Circular), "Audits of States, Local Governments, and Non-Profit Organizations," requires non-Federal entities that expend \$500,000 or more in a year in Federal awards to have an audit conducted in accordance with the Circular. For audit years 1997-2003, the audit threshold is \$300,000 or more per year.

The SF-SAC is not to be used by commercial (for profit) auditees. Commercial (for profit) organizations should see the Federal awarding agency contact for audit report submission instructions.

**Note: This form dated 2004 should be used for audits covering fiscal periods ending in 2004, 2005 and 2006. Submissions covering fiscal periods with end dates prior to January 1, 2004 must use one of the prior versions of Form SF-SAC available on the Federal Audit Clearinghouse Web site (<http://harvester.census.gov/fac/>). The form dated 3-20-2001 must be used for audits covering fiscal periods ending in 2001, 2002 or 2003. The form dated 8-97 must be used for audits covering fiscal periods ending in 1997, 1998, 1999 or 2000.**

Circular A-133 §. 320(b) requires auditees to submit a completed Form SF-SAC, along with an appropriate number of reporting package copies in accordance with §.320(d) of the Circular, to the Federal clearinghouse designated by OMB (currently the U. S. Census Bureau). The reporting package is defined in §. 320(c) of the Circular. Auditees are also required to send a copy of the reporting package (or written notification of no findings) (§. 320(e)) to any pass-through entity from which they receive Federal funds. Submissions to a pass-through entity should not include the form.

Auditees should not submit a reporting package or Form SF-SAC if their A-133 audit report is included in another auditee's report. **Example: If the audit of a state university's Federal awards is included in the state-wide single audit report and Form SF-SAC, the university should not submit a reporting package or Form SF-SAC to the Federal clearinghouse.**

### **SUBMISSION TO THE FEDERAL AUDIT CLEARINGHOUSE**

**Auditees are encouraged to use the online Internet submission option available on the Federal Audit Clearinghouse (FAC) Web site. Auditees and auditors reduce the likelihood of errors on the Form SF-SAC by using the online Internet submission option. The Web site is located at: <http://harvester.census.gov/fac/>. Prior to completing Form SF-SAC online, review the instructions available on the FAC Web site.**

**Only an approved Form SF-SAC will be accepted.** There are two approved Form SF-SAC formats: an original (or a photocopy) of the paper form or a form created using the online Internet Data Entry System option. Spreadsheet files for reporting the multiple Employer Identification Numbers (EINs), multiple Data Universal Numbering System (DUNS) numbers, Federal awards and audit finding data can be uploaded into the online Internet Data Entry System. Both options are available on the FAC Web site.

The form must be signed and dated by both the auditee and auditor. A photocopy of the form is acceptable, but both signatures must be original. Auditees who enter their Form SF-SAC data using the Internet Data Entry System must print a hard copy of the final form after the form passes all the edits, obtain the auditee and auditor signatures, and forward the signed Form SF-SAC along with the reporting package(s) to the FAC. Future improvements to the Internet Data Entry System may allow electronic submission of the Form SF-SAC and reporting package at a later date. Submission of anything other than a complete form and reporting package(s) will not be accepted.

**Form Due Date:** The audit shall be completed and the data collection form and reporting packages shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

### **WHO TO CONTACT WITH QUESTIONS**

For questions related to specific Federal awards, please contact the Federal agency from which the award originated. For technical audit questions, please contact the auditee's Federal cognizant or oversight agency. Appendix III of the "OMB Circular A-133 Compliance Supplement" contains Federal agency contact information for A-133 audits. Appendix III of the Compliance Supplement is accessible via the Internet at [www.whitehouse.gov/OMB/grants](http://www.whitehouse.gov/OMB/grants). For questions concerning the submission process or the form, contact the FAC (1.888.222.9907). Information can also be found on the FAC Web site (<http://harvester.census.gov/fac/>).

## DESCRIPTION OF FORM

### PART I - GENERAL INFORMATION

The auditee completes this section (except Items 4 and 7) and signs and dates the certification statement provided in Item 6(g). The auditor completes Item 7 and signs and dates the statement provided in Item 7(g).

#### Item 1 - Fiscal Period Ending Date For This Submission

Enter the last day of the fiscal period covered by the audit. The 2004 Form applies to all audits covering fiscal periods ending in the 2004, 2005 or 2006 calendar years.

**Note: Submissions covering fiscal period end dates prior to January 1, 2004 should use one of the prior versions of Form SF-SAC available on the Federal Audit Clearinghouse Web site (<http://harvester.census.gov/fac/>). The form dated 3-20-2001 should be used for audits covering fiscal periods ending in 2001, 2002 or 2003. The form dated 8-97 should be used for audits covering fiscal periods ending in 1997, 1998, 1999 or 2000.**

#### Item 2 - Type of Circular A-133 Audit

Mark (X) the appropriate box. §\_\_\_.200 of the Circular requires non-Federal entities that expend \$500,000 or more in a year in Federal awards to have a single audit conducted in accordance with §\_\_\_.500, except when they elect to have a program-specific audit conducted in accordance with §\_\_\_.235.

#### Item 3 - Audit Period Covered

Mark the appropriate box. Annual audits cover 12 months and biennial audits cover 24 months. If the audit period covered is neither annual nor biennial, mark "Other" and provide the number of months (excluding 12 and 24) covered in the space provided.

#### Item 4 - Date Received by Federal Clearinghouse

Skip this item (Federal government use only).

#### Item 5 - Auditee Identification Numbers

##### (a) Primary Employer Identification Number (EIN)

Enter the Auditee's Employer Identification Number (EIN), the nine-digit taxpayer identification number assigned by the Internal Revenue Service (IRS). If the auditee was assigned multiple EINs, enter the primary EIN. Also, using the spaces provided, enter the primary EIN on the top of each page of the form.

##### (b) Are Multiple EINs Covered in this Report

Mark (X) the appropriate box to indicate if the auditee (or components of an auditee covered by the audit) was assigned more than one EIN by the IRS. (Example: A Statewide audit covers many departments, each of which may have its own EIN.)

##### (c) List the multiple EINs covered in this report

If Part I, Item 5(b) is marked "Yes" list the additional EIN numbers for all entities covered by the audit in Item 5(c) of the continuation sheet on page 4 of the Form SF-SAC. An EIN should be considered covered in this report if this report is intended to satisfy the entity's or component's (e.g., State Agency, subentity) single audit requirement. If additional lines are needed, photocopy page 4 and attach the additional page(s) to the form. Do not include separate EINs for any component which did not receive, expend, or otherwise administer Federal awards. Do not include the primary EIN in Item 5(c) of the continuation list.

**Note:** Auditees may file the continuation sheet on page 4 via an electronic spreadsheet using the online submission option. Instructions for this option are included in the online filing instructions available on the FAC Web site.

##### (d) Data Universal Numbering System (DUNS) Number

The Data Universal Numbering System (DUNS) number is a unique nine-digit identification sequence assigned by Dun & Bradstreet (D&B) and is required by OMB policy on all Federal award applications submitted on or after October 1, 2003. All primary applicants, i.e., the entity making the application to the Federal government, including states, local, and tribal governments, and other entities receiving block or other mandatory grants will need a DUNS number to apply for funds. A DUNS number is required from these direct applicants for all Form SF-SAC submissions effective starting with fiscal periods ending in 2005. Although not required by sub-grantees, a DUNS number is requested for all Form SF-SAC submissions effective starting with fiscal periods ending in 2005.

The primary auditee's DUNS number should be entered in Item 5(d). However, auditees who used the financial services of another entity for the administration or processing of Federal awards should enter that entity's DUNS number in Item 5(d) as the primary DUNS number. While items 5(d), (e), and (f) may be left blank if the auditee is reporting only pass-through Federal award expenditures, this data is requested.

**(e) Are multiple DUNS numbers covered in this report?**

Mark (X) the appropriate "Yes" or "No" box to indicate if a component entity (e.g., State agency, sub-entity) expending Federal awards is covered in the audit report. If Item 5(e) is marked "Yes", Part I, Item 5(f) must contain an entry other than the one entered in 5(d). If "No" is marked, leave Part I, Item 5(f) blank.

Auditees who process Federal awards for component entities expending Federal awards must mark Item 5(e) "Yes" and list the DUNS numbers of the component entities in Item 5(f) on the continuation sheet on page 4 of the Form SF-SAC. Furthermore, auditees who used the financial services of another entity for the administration or processing of Federal awards should enter that entity's DUNS number in Item 5(d) as the primary DUNS number, mark Item 5(e) "Yes," and list its own DUNS number in Item 5(f). If auditees pass Federal awards through to non-component entities, the auditee should mark 5(e) "No." If an auditee's component units expended no Federal awards, the auditee should mark Item 5(e) "No."

**(f) List the multiple DUNS numbers covered in this report**

If Part I, Item 5(e) is marked "Yes," list the additional DUNS numbers on Item 5(f) of the continuation sheet on page 4 of the Form SF-SAC. Report a DUNS number in Item 5(f) if it identifies a component entity (e.g., State Agency, sub-entity) of the auditee with Federal awards expended during the fiscal period included in the audit. Do not include separate DUNS numbers for any component entity that did not expend or otherwise administer Federal awards. The order of the DUNS listings is not important.

**Note:** If additional lines are needed, photocopy page 4 and attach the additional page(s) to the form. Auditees may file the continuation sheet on page 4 via an electronic spreadsheet using the online submission option. Instructions for this option are included in the online filing instructions available on the FAC Web site.

**Example 1: Component Unit Reporting:** The Smith County Sheriff's Office applied for and expended its own Federal grants using its own DUNS number. However, the Smith County government Finance Office required the Sheriff's Office grants to be reported as a component of Smith County's Single Audit. Smith County should enter the Smith County DUNS number as the principal DUNS number in Item 5(d), mark Item 5(e) "Yes", and enter the Smith County Sheriff's Office DUNS number on the Item 5(f) continuation sheet on Page 4 of their form.

**Example 2: Non-component Unit Reporting:** The Jones County Sheriff's Office applied for and expended Federal grants using its own DUNS number. The Jones County Sheriff's Office prepared and submitted an independent Single audit (not as a component of the Jones County audit). The Jones County Sheriff's Office should enter its own DUNS number as the principal DUNS number in Item 5(d), and mark Item 5(e) "No."

**Example 3: Financial Administration:** A State University system Single Audit covers the Federal award expenditures of every campus in the system. Each University or campus in the system applied for and expended its own direct Federal grants using its own DUNS number. The State Board of Education served only as a conduit for the disbursement of Federal awards to each University and campus. The Single Audit of the State University system should list the payee's (State Board of Education) DUNS number as the primary DUNS number in Item 5(d), mark Item 5(e) "Yes," and list the DUNS numbers for each campus listed in the original grant applications in Item 5(f) on the continuation sheet (the order of this listing is unimportant).

**Item 6 - Auditee Information**

**(a-f)** Enter auditee contact information.

**(g)** A senior representative of the auditee (e.g., Chief Executive Officer, Controller, Director of Finance, Chief Financial Officer) signs the statement that the information on the form is accurate and complete as required by §.320 of the Circular. Provide the printed name and title of the signatory and the date of signature.

**Note:** Forms missing a legible auditee signature, printed name, or date of signature will be rejected.

**Item 7 - Auditor Information**

The auditor completes this item.

**(a-f)** Enter the name of the auditor that conducted the audit in accordance with the Circular. The auditor name may represent a sole practitioner, certified public accounting firm, State auditor, etc. Where multiple audit organizations are used to conduct the audit work, only the lead or coordinating auditor shall provide its information in Item 7(a-f). Attach a sheet to the form with the same information (Part I, Items 7a-f) about the other auditor organizations.

**(g)** The auditor listed in Part I, Item 7(a) is the same auditor that signs the auditor statement. Additional auditors may sign the form, but only the first name listed will be entered into the Federal Audit Clearinghouse database.

**Note:** Forms missing a legible auditor signature or stamp, or date of signature will be rejected.

**PART II - FINANCIAL STATEMENTS**

The auditor completes this section of the form. All information for this section should be obtained from the opinion on the financial statements and reports in accordance with the Government Auditing Standards (GAS) related to the financial statement audit.

### Item 1 - Type of Audit Report

If the audit report for the financial statements as a whole is unqualified, mark box 1 "Unqualified opinion." If the audit report for the financial statements is other than unqualified, mark box(es) 2 "Qualified opinion," 3 "Adverse opinion," and/or 4 "Disclaimer of opinion," as applicable.

Audits of state and local governments often result in the auditor providing multiple opinions on various opinion units within the financial statements. In situations where there are unqualified opinions on some opinion units and modified opinions or disclaimers of opinions on others, multiple boxes should be checked in response to this question. For example, if the financial statements for an auditee includes a qualified opinion for one opinion unit, a disclaimer of opinion for a second opinion unit, and unqualified opinion on the remaining opinion units, then mark boxes 2 and 4, but not 1 and 3. Box 1 is only marked for an unqualified opinion on the financial statements as a whole or when unqualified opinions are provided on all opinion units.

**Item 2** - Mark either "Yes" or "No" to indicate the existence of a "going concern" explanatory paragraph in the audit report.

**Item 3** - Mark either "Yes" or "No" to indicate the disclosure of a "reportable condition."

**Item 4** - Skip this item if Item 3 is marked "No." Mark either "Yes" or "No" to indicate the disclosure of a reportable condition reported as a "material weakness."

**Item 5** - Mark either "Yes" or "No" to indicate the disclosure of a "material noncompliance."

### PART III - FEDERAL PROGRAMS

The auditor completes this section of the form.

**Item 1 - Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit (AICPA Audit Guide, Chapter 12)?**

According to the AICPA Audit Guide, (to be published in summer 2004) if the audit of Federal awards did not encompass the entirety of the auditee's operations expending Federal awards, the operations that are not included should be identified in a separate paragraph following the first paragraph of the report on major programs. In Part III, Item 1, mark either "Yes" or "No" to indicate the presence of such a paragraph for any departments, agencies, or other organizational units not included in the audit which expended \$500,000 or more in Federal awards during the fiscal period.

### Item 2 - Dollar Threshold to Distinguish Type A and Type B Programs

Enter the dollar threshold used to distinguish between Type A and Type B programs as defined in §\_\_.520(b) of the Circular. The dollar threshold must be \$300,000 or higher. Round to the nearest dollar.

### Item 3 - Low-Risk Auditee

Mark either "Yes" or "No" to indicate if the auditee qualifies as a low-risk auditee under §\_\_.530 of the Circular.

### Item 4 - Reportable Conditions

Mark either "Yes" or "No" to indicate if the Schedule of Findings and Questioned Costs includes any reportable conditions in internal control for major programs.

### Item 5 - Material Weaknesses

If Item 4 is marked "No," skip Item 5. If Item 4 is marked "Yes," mark Item 5 either "Yes" or "No" to indicate if any reportable conditions are material weaknesses.

### Item 6 - Questioned Costs

Mark either "Yes" or "No" to indicate if the Schedule of Findings and Questioned Costs discloses any known questioned costs.

### Item 7 - Prior Audit Findings

Mark either "Yes" or "No" to indicate if the Summary Schedule of Prior Audit Findings reports the status of any audit findings relating to **direct** Federal awards expended. If "Yes", identify the Federal agency(ies) with prior direct findings in Part III, Item 8.

### Item 8 - Federal Agencies Required to Receive the Reporting Package

Mark (X) the appropriate box to indicate each Federal awarding agency required to receive a copy of the reporting package pursuant to §\_\_.320(d) of the Circular. A Federal agency should be marked only if the Schedule of Findings and Questioned Costs discloses audit findings relating to Federal awards the Federal awarding agency provided **directly** OR the Summary Schedule of Prior Audit Findings reports the status of any audit findings relating to Federal awards that the Federal awarding agency provided **directly**. If a Federal agency is not included in the list, enter the two-digit prefix from Appendix I of these instructions in the "Other" box.

Note: Some CFDA prefixes are used by more than one Federal Agency. Enter the same CFDA prefix used on the Federal award application. If the auditor identified audit finding(s) for a direct award, identify the specific Federal agency to which the Federal Audit Clearinghouse is required to distribute audit copies.

### Reporting Package Worksheet - Number of copies required for submission

The auditee must submit to the Federal Audit Clearinghouse one reporting package (as defined in § 320(c)) for each Federal agency marked in Item 8, one archival reporting package, and one reporting package for the Federal cognizant agency for audit, if not marked in Item 8. The Federal cognizant agency for audit list is on the Federal Audit Clearinghouse Web site's reference page (<http://harvester.census.gov/fac/dissemin/reports2.html>). Count the number of boxes marked (X), and enter the number in the total box. The number in the total box is the number of reporting packages that must be submitted to the Federal Audit Clearinghouse.

1. Count the number of Federal agencies marked in Item 8.
2. Add one copy for Federal Audit clearinghouse archives.
3. Add one copy if the auditee has a Federal cognizant agency not marked in the Item 8.

**Notes:** (1) Three separate agencies use the CFDA numbers beginning with "45". If one of those agencies is required to receive a reporting package, mark the box next to an agency using either an "03", "05", or "06" prefix. (2) See the Historical index on the CFDA website (<http://www.cfda.gov/>) for information regarding the developing situation of reporting awards granted by the Federal Emergency Management Agency, now part of the Department of Homeland Security. (3) See the Federal Audit Clearinghouse website (<http://harvester.census.gov/fac/>) for information regarding the development of a procedure allowing for the electronic submission of reporting packages.

### Item 9 - Federal Awards Expended During Fiscal Period

List each program for which Federal awards were expended in the same order as shown in the Schedule of Expenditures of Federal Awards. List individual programs in each row.

Break out clusters, with the exception of R&D, and list each individual program on a separate line. Report the R&D cluster at the same level of detail as the Schedule of Expenditures of Federal Awards.

The information to complete columns (a), (b), (c), (d), (e) and (f) is obtained from the Schedule of Expenditures of Federal Awards. The information to complete columns (g) and (h) is obtained from the Schedule of Findings and Questioned Costs prepared by the auditor. Note that Item 9 includes the required information for each Federal program presented in the Schedule of Expenditures of Federal Awards (and notes thereto), regardless of whether audit findings are reported. If additional lines are needed, photocopy page 3 and attach the additional page(s) to the form, and enter the total expenditures for all pages in the "Total Federal Awards Expended" block on the last page.

**Note:** Auditees may file this page via an electronic spreadsheet using the online submission option. Instructions for this option are included in the online filing instructions available on the Federal Audit Clearinghouse Web site.

### CFDA Number - Federal Agency Prefix and Extension

Most common Federal awards are listed in the Catalog of Federal Domestic Assistance (CFDA). A CFDA number consists of a two-digit prefix, and a three-digit extension separated by a period. If this information is unavailable, consult the Federal awarding agency or pass-through entity to obtain this number. The CFDA catalog is available on the Internet at: <http://www.cfda.gov>. If the Federal program does not have a CFDA number, follow the specific instructions below.

#### Column (a) Federal Agency Prefix

Enter the first two digits of the CFDA number. The CFDA prefix identifies the awarding Federal Agency.

#### Column (b) CFDA Extension

The period is automatically assumed and should not be entered on the form.

#### Programs with a CFDA Number

If the Federal program is listed in the Catalog of Federal Domestic Assistance (CFDA), enter the number from the Catalog.

In the first two spaces, enter the first two digits of the CFDA number assigned to the Federal award. In the extension box, enter the last three digits of the CFDA number.

**Example:** The U. S. Department of Education program 84.033 would be entered as:

8	4	033
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#### Programs with No CFDA Number, but Award Has a Contract or Grant Number

If the Federal program is not listed in the CFDA or has no CFDA number, enter the Federal Agency's two-digit prefix as listed in **Appendix 1**. If the Federal Agency is not listed in Appendix 1, enter "99" for "Miscellaneous." In the extension box, enter the contract or grant number from the Federal Agency (up to fifty digits, letters or characters).

**Example:** A U. S. Department of Health and Human Services program with no CFDA number but with a contract number of "CT-654321-B" would be entered as:

9	3	CT-654321-B
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**Programs with No CFDA Number, Contract number or Grant Number**

If the program does not have a CFDA number, a contract number, or grant number, enter the Federal agency's two-digit prefix (as listed in Appendix 1) in the first two spaces. In the extension box, enter "UNKNOWN."

**Example:** A U. S. Agency for International Development program with no CFDA number or contract number would be entered as:

9	8	UNKNOWN
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**Note:** CFDA prefixes may not always be the same as the prefixes listed in Appendix I. If an award has a CFDA number use that number. If the program does not have a CFDA number, use the prefix from Appendix I.

**Column (c) - Research and Development**

Mark either "Yes" or "No" to indicate if the Federal program is a Research and Development (R&D) program as defined in §\_\_\_.105 of the Circular by marking (X) in the appropriate box to indicate either "Yes" or "No". When a CFDA program consists of part R&D and part non-R&D, list the R&D expenditure detail on one line and the non-R&D expenditure detail on a second line.

**Example:** A National Science Foundation program with part R&D and part non-R&D for CFDA 47.076 would be entered as:

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR						
CFDA number		Research and development (c)	Name of Federal Program (d)	Amount Expended (e)		Direct Award (f)
Federal Agency Prefix 1 (a)	Extension 2 (b)					
4	7 . 076	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Education and Human Resources	23,456	.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No
4	7 . 076	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Education and Human Resources	89,101	.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No

**Column (d) - Name of Federal Program**

Enter the name of the Federal program as shown in the CFDA. If the program is not listed in the CFDA, the contract number or a description of the award recognizable by the awarding Federal agency should be entered.

**Column (e) - Amount Expended**

Enter the amount of expenditures included in the Schedule of Expenditures of Federal Awards for each Federal program. Note that amounts shall include the value of Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end, regardless of whether such amounts were presented in the Schedule or in a note to the Schedule of Expenditures of Federal Awards. Round to the nearest dollar.

**Column (f) - Direct Award**

Indicate if the award was received directly from a Federal awarding agency by marking (X) in the appropriate box to indicate either "Yes" or "No". When an award consists of both direct and indirect (i.e., received by a subrecipient from a pass-through entity) funds, list the direct expenditure detail on one line and the indirect expenditure detail on a second line (see example below). When a single audit reporting entity receives direct awards and transfers them to another part of the same single audit reporting entity, these awards should still be reported as direct (e.g., transfers within the single audit reporting entity do not create a recipient/subrecipient relationship).

**Example:** A U.S. Department of Labor program with part direct and part indirect for CFDA 17.259 would be entered as:

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR						
CFDA number		Research and development (c)	Name of Federal Program (d)	Amount Expended (e)		Direct Award (f)
Federal Agency Prefix 1 (a)	Extension 2 (b)					
1	7 . 259	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WIA Youth Activities	133,337	.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No
1	7 . 259	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WIA Youth Activities	995,582	.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No

**Major Program**

**Column (g) - Major program**

Indicate if the Federal program is a major program, as defined in §\_\_520 of the Circular by marking (X) in the appropriate box to indicate either "Yes" or "No".

**Column (h) - If yes, type of audit report**

If Part III, Item 9(g) "Major program" is marked "Yes", enter one letter (**U, Q, A, or D**) corresponding to the type of audit report on the major program in the adjacent box. Enter either '**U**' for Unqualified opinion, '**Q**' for Qualified opinion, '**A**' for Adverse opinion, or '**D**' for Disclaimer of opinion. For clusters, the type of audit report must apply to the program as a whole. Therefore, all programs in a cluster should share the same type of audit report and each line should be filled in completely.

If the program is not a major program, leave the "type of audit report" box (h) blank.

**Example:** A major program must have a type of audit report marked. Do not mark the type of audit report box for non-major programs.

9. - Continued			10. AUDIT FINDINGS	
(f)	Major Programs		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit Finding reference number(s) (b)
	Major program (g)	If yes, type of audit report <sup>3</sup> (h)		
	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	<b>Q</b>	AFG	2004-2
	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	<b>U</b>	O	N/A
	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		B	2004-3

Note: If two lines are listed for the same CFDA number because part of the award is direct and part indirect (see the example in Part III, Item 9f), the auditor should repeat the major program information on each line. If the program is not a major program, leave the "Opinion" box blank.

**Item 10 - Audit Findings**

The rows of Item 10 directly correspond to matching rows in Item 9. The information to complete columns (a) and (b) is obtained from the Schedule of Findings and Questioned Costs prepared by the auditor. If the Schedule of Findings and Questioned Costs does not identify audit findings for a specific row, the auditor should enter "O" for item (a) and "N/A" for item (b). Audit findings affecting more than one major program should be listed for all major programs affected.

**Column (a) - Type(s) of Compliance Requirement(s)**

Using the list provided on the form in footnote 4 on page 3, enter the letter(s) that correspond to the type(s) of compliance requirement(s) applicable to the 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. Do not list all types of compliance requirements that were tested. Normally, audit findings will be covered by the 14 types of compliance requirements described in Part 3 of the "OMB Circular A-133 Compliance Supplement." If there is an audit finding, but it is not covered by one of these, enter "P" for "Other." If there were no audit findings, enter "O" for "None." Enter the letters only, do not enter commas or spaces.

**Column (b) - Audit Finding Reference Number(s)**

Enter the audit finding reference number(s) for audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under §\_\_510(a)) in the Schedule of Findings and Questioned Costs. If no audit findings were reported, enter N/A for "Not applicable" (footnote 5).

## APPENDIX I

### Federal Agency Two-Digit Prefix List

01*	African Development Foundation	03*	Institute of Museum and Library Services
23	Appalachian Regional Commission	04*	Inter-American Foundation
88	Architectural & Transportation Barriers Compliance Board	61*	International Trade Commission
13*	Central Intelligence Agency	09*	Legal Services Corporation
29	Commission on Civil Rights	42	Library of Congress
78	Commodity Futures Trading Commission	43	National Aeronautics & Space Administration
87	Consumer Product Safety Commission	89	National Archives & Records Administration
94	Corporation for National and Community Service	92	National Council on Disability
90	Denali Commission	44	National Credit Union Administration
10	Department of Agriculture	05*	National Endowment for the Arts
11	Department of Commerce	06*	National Endowment for the Humanities
12	Department of Defense	68	National Gallery of Art
84	Department of Education	46	National Labor Relations Board
81	Department of Energy	47	National Science Foundation
93	Department of Health and Human Services	77	Nuclear Regulatory Commission
97	Department of Homeland Security	07*	Office of National Drug Control Policy
14	Department of Housing and Urban Development	27	Office of Personnel Management
16	Department of Justice	70	Overseas Private Investment Corporation
17	Department of Labor	08*	Peace Corps
15	Department of the Interior	86	Pension Benefit Guaranty Corporation
21	Department of the Treasury	57	Railroad Retirement Board
20	Department of Transportation	85	Scholarship Foundations
64	Department of Veterans Affairs	58	Securities and Exchange Commission
66	Environmental Protection Agency	59	Small Business Administration
30	Equal Employment Opportunity Commission	60	Smithsonian Institution
32	Federal Communications Commission	96	Social Security Administration
83	Federal Emergency Management Agency	62	Tennessee Valley Authority
33	Federal Maritime Commission	98	U. S. Agency for International Development
34	Federal Mediation and Conciliation Service	19	U. S. Department of State
39	General Services Administration	91	United States Institute of Peace
40	Government Printing Office	99*	Miscellaneous

\* These prefixes are not assigned by the Catalog of Federal Domestic Assistance and are for OMB Circular A-133 reporting purposes only.