

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

MUNICIPIO DE RINCON
AUDITORIA 2006-2007
30 DE JUNIO DE 2007

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UNIDAD DE CORREO

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

FISCAL YEAR ENDED JUNE 30, 2007



Mr. Carlos López-Bonilla		Mr. Francisco Mercado-Silva, CPA
Mayor		Finance Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

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INDEPENDENT AUDITORS' REPORT

*Mayor and Members of the 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, 2007, 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 opinions.

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, 2007, 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 26, 2007 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 that 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 14 and the Budgetary Comparison Schedule – General Fund on page 49 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 26, 2007

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to the original.

Management Discussion and Analysis

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

The following analysis of the financial performance of the Municipality of Rincon will provide an overview of the Municipality's financial activities for the fiscal year ended June 30, 2007. 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 use the economic resources measuring focus and the accrual basis of accounting to report information about the Municipality as a whole:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2006-2007 by \$25,944,957 (net assets).
- Revenues increased by 14% and expenses decreased 6% when compared with year 2005-2006.
- Net change in net assets amounted to \$3,289,693, an increase of 215% 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. These financial statements use the current financial resources measurement focus and modified accrual basis of accounting:

- At the June 30, 2007, a positive net change in the fund balances of the Municipality's governmental funds for the amount of \$3,311,309 resulted in reported combined ending fund balances of \$6,846,407. Approximately a negative 2.79% 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 \$887,875 and a negative unreserved fund balance (deficit) of \$191,216. Unreserved fund deficit decreased 78% from prior year.

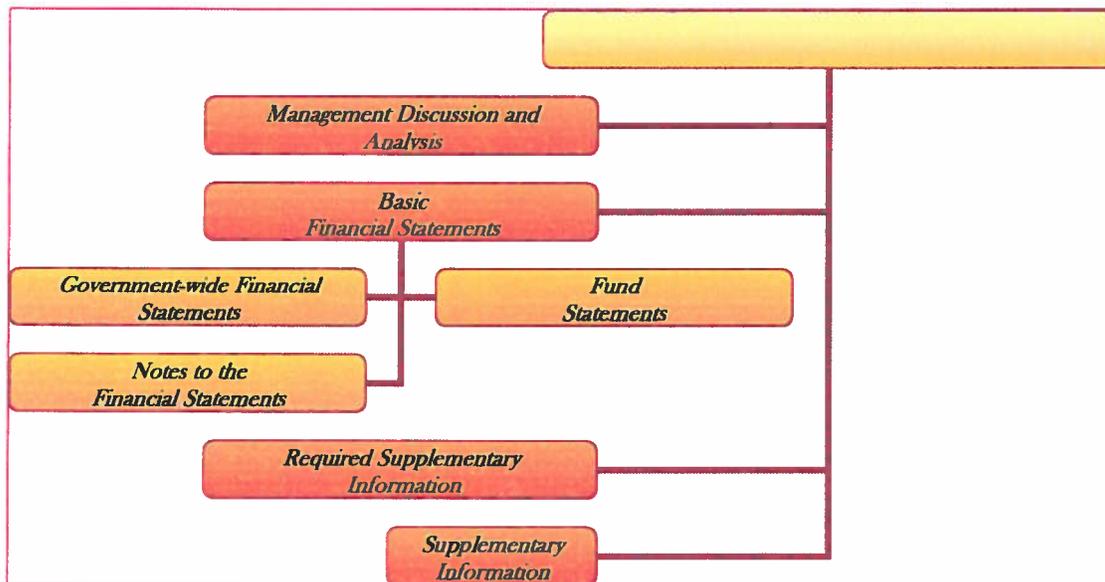
General Financial Highlights

- The investment in capital assets as of June 30, 2007 was \$24,146,545 (net of depreciation).
- Long term debt increased to \$7,311,289, approximately 2% with respect to the prior year.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$669,462.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial report comprises four components: (1) management discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) other 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 capital assets may need to be considered to assess the overall health of the Municipality. The second statement – the statement of activities – presents information showing how the net 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

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.

- ***Fund Financial Statements***

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

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well 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.

Supplementary information

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

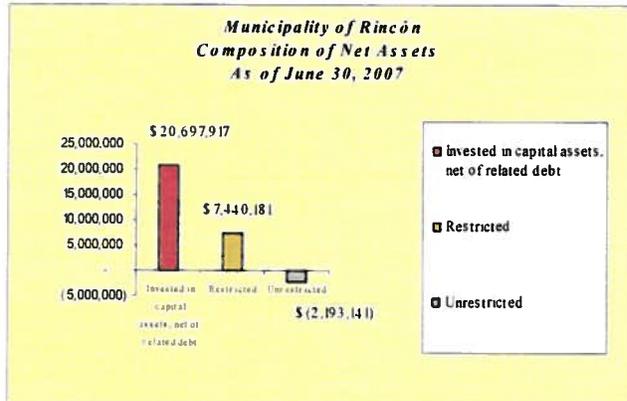
Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2007 and 2006:

TABLE 1

Summary Statement of Net Assets As of June 30,		
	Governmental Activities	
	2007	2006 (as restated)
Assets		
Current and other assets	\$ 12,236,656	\$ 8,223,152
Capital assets	24,146,545	24,142,324
Total assets	\$ 36,383,201	\$ 32,362,476
Liabilities		
Current and other liabilities	\$ 3,126,955	\$ 2,517,219
Long term liabilities	7,311,289	7,192,993
Total liabilities	10,438,244	9,710,212
Net assets		
Invested in capital assets, net of related debt	20,697,917	20,923,327
Restricted	7,440,181	5,630,198
Unrestricted (deficit)	(2,193,141)	(3,898,261)
Total net assets	\$ 25,944,957	\$ 22,655,264

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. At June 30, 2007, assets exceeded its liabilities by \$25,944,957 representing an increase of 15% with respect to year 2006 due to permanent improvement funds received and a strong control over expenses.



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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

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. As of June 30 2007, 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 the debt section of net assets. Therefore, they are reported as part of the unrestricted net assets section.

Changes in net assets

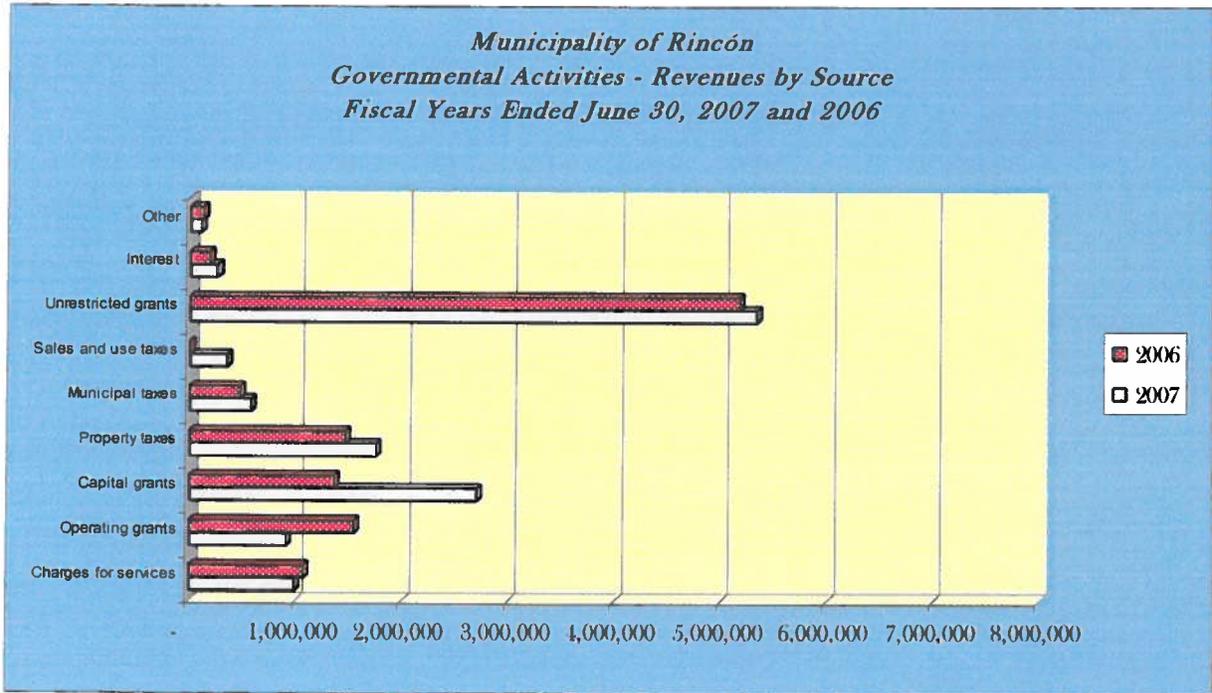
The following table summarizes the changes in net assets for the fiscal years ended 2007 and 2006:

TABLE 2

Summary of Changes in Net Assets As of June 30,		
	Governmental Activities	
	2007	2006 (as restated)
Program revenues:		
Fees, fines and charges for services	\$ 999,344	\$ 1,069,448
Operating grants and contributions	916,819	1,542,281
Capital grants and contributions	2,700,300	1,360,459
General revenues:		
Property taxes	1,750,453	1,460,116
Municipal license taxes	578,679	481,405
Sales and use taxes	361,584	-
Grants and contributions not restricted to specific programs	5,333,753	5,176,112
Interest	259,398	184,445
Other	112,431	130,744
Total revenues	13,012,761	11,405,010
Expenses:		
General government	4,124,297	4,582,042
Public works and sanitation	2,702,592	2,664,145
Public safety	926,982	878,631
Culture and recreation	551,007	527,958
Health	320,367	320,367
Housing, welfare and community development	818,036	1,139,053
Education	3,162	17,589
Interest on long term debt	276,625	231,095
Total expenses	9,723,068	10,360,880
Change in net assets	3,289,693	1,044,130
Net assets-beginning of year	22,655,264	21,611,134
Net assets-end of year	\$ 25,944,957	\$ 22,655,264

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

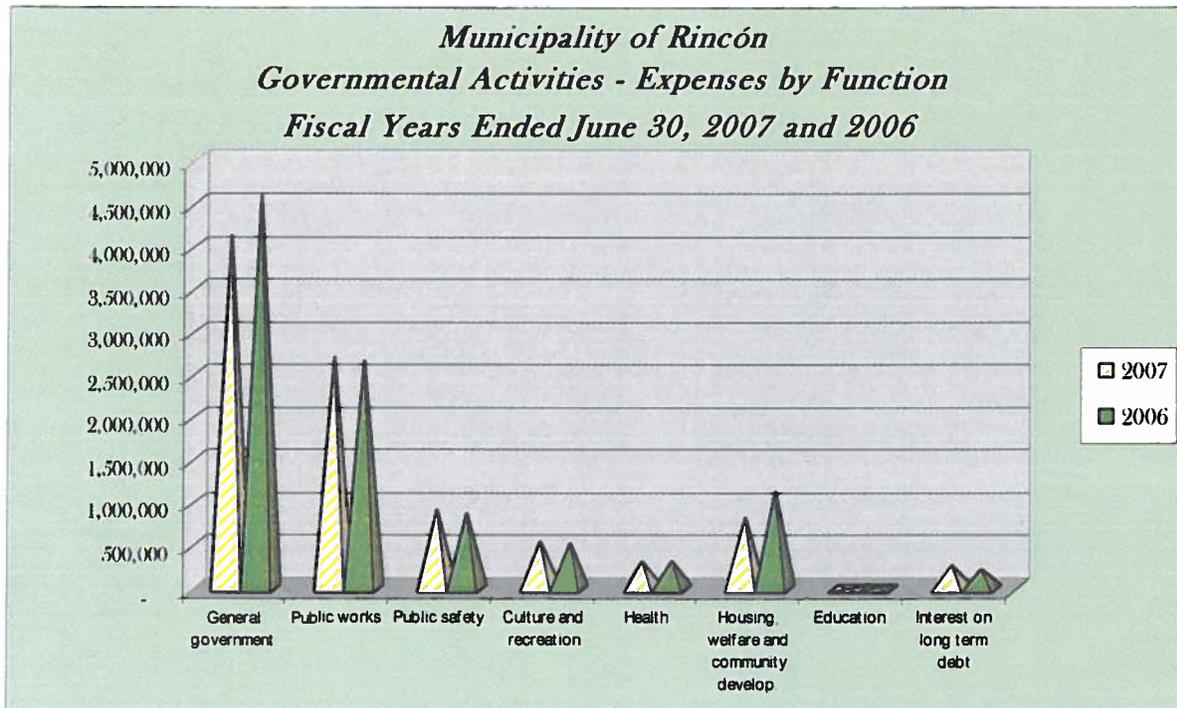
FIGURE 1



Approximately 41% of Municipality's revenues came from unrestricted grants, 28% of came from operating and capital grants, and 13% from property taxes. Revenues increased by 14% in comparison with year 2006. The most significant change is a 98% increase in capital grants, due mainly to permanent improvement funds assigned by the Commonwealth Government which were still not used at year end. Other significant changes includes an increase of 20% in property and municipal tax revenues, \$361,584 of revenues received from the sales and use taxes imposed during the year ended June 30, 2007 (a new revenue source during current year), and a 40% decrease in operating grants due to assignments in prior year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

FIGURE 2



The Municipality's expenses cover a range of services. The largest expenses are general government representing approximately 42%, public works and sanitation with 28% and public safety with 10%. Program revenues of the Municipality covered 29% of total expenses.

Total expenses decreased 6% in comparison with previous year. This includes a decrease in welfare and community development of 28%, due to prior year additional welfare expenses related to donations and others financed with external grants such as FEMA and CDBG; a 10% decrease in general government, due to less salary expenses for non regular employees; with small increases in public safety and culture and recreation due to improved efforts in these areas.

As noted previously the increase in revenues combined with a slight decrease in expenses caused the net change in net assets to increase approximately 215% compared with net change in net assets reported in 2006 statement of activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

The Municipality's expenses cover a range of services. The largest expenses are general government representing approximately 42%, public works and sanitation with 28% and public safety with 10%. Program revenues of the Municipality covered 29% of total expenses.

Total expenses decreased 6% in comparison with previous year. This includes a decrease in welfare and community development of 28%, due to heavy welfare expenses in prior year related to donations and others financed with external grants such as Commonwealth Legislative Resolutions, CDBG and Other Governmental Funds received in the past; and a 10% decrease in general government, due to a strict control by management over all general expenses.

As noted previously the significant increase in revenues combined with a slight decrease in expenses caused the net change in net assets to increase approximately 215% compared with net change in net assets reported in 2006 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

Net Cost of Municipality's Governmental Activities				
Fiscal years ended June 30,				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
General government	\$ 4,124,297	\$ 4,582,042	\$ (2,478,234)	\$ (2,459,468)
Public works and sanitation	2,702,592	2,664,145	(62,512)	(1,337,539)
Public safety	926,982	878,631	(924,784)	(744,421)
Culture and recreation	551,007	527,958	(526,707)	(495,458)
Housing, welfare and community development	818,036	1,139,053	(514,214)	(782,755)
Other	600,154	569,051	(600,154)	(569,051)
	<u>\$ 9,723,068</u>	<u>\$ 10,360,880</u>	<u>\$ (5,106,605)</u>	<u>\$ (6,388,692)</u>

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$999,344) and other governments and organizations that subsidized certain programs with grants and contributions (\$3,617,119). The \$(5,106,605) net cost of services was fully covered by other general revenues including property, municipal license taxes and the new sales and use taxes.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

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, the 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, 2007, the governmental funds reported combined ending fund balances of \$6,846,407, a net increase of \$3,311,309 in comparison with the prior year. This increase was caused primarily by increases in the general fund of \$887,875 and the receipt of funds for the new Permanent Capital Improvements Fund of \$1,800,221. Of the total combined fund balances, \$(191,216) or (3%) constitutes unreserved fund balance (deficit). 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 (3%) of total combined ending fund balances. For the year ended June 30, 2007, the fund balance of the general fund increased by a net change of \$887,875 when compared with the prior year. Of this net change an increase of \$131,784 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 current and previous years). The principal components of this increase in the general fund is an increase of \$156,437 in property taxes revenues, an increase of \$157,752 in Commonwealth Government subsidies, an increase of \$161,535 in interest revenues, and the recognition of a new revenue source from the sales and use taxes implemented in the current year, which amounted to \$361,584.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal year 2006-2007 presented an increase of only 1% 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 \$702,212 due to additional collections of property taxes, interest revenues, Commonwealth subsidies and the new revenue source of sales and use taxes. Budget expenditures were increased by \$404,356. Actual revenues exceeded revised budgeted revenues by \$428,918 (net). The most significant variances were \$194,912 in sales and use taxes and \$105,431 in municipal license taxes revenues. The Municipality also reported a net positive variance of \$239,419 between revised budgeted appropriations and actual expenditures due to a strict control of general government expenditures which ended with a total net positive variance of \$201,064. Actual revenues exceeded actual expenditures by \$669,462.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$24,146,545 (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 only .02% over the prior year.

TABLE 4

<i>Capital Assets, net As of June 30,</i>		
	Governmental Activities	
	2007	2006 (as restated)
Non-depreciable assets:		
Land	\$ 3,863,243	\$ 3,858,243
Construction in progress	6,296,048	5,620,418
Depreciable assets:		
Land improvements	6,254	-
Buildings and buildings improvements	8,863,246	8,972,234
Infrastructure	2,959,518	3,143,912
Vehicles, machinery and equipment	2,158,236	2,547,517
Total	\$ 24,146,545	\$ 24,142,324

The Municipality's major capital projects that were still in construction as of June 30, 2007 are as follows:

- Improvements to new City Hall - \$3,665,355
- Barrero Sanitary Sewer System - \$1,507,625
- Construction of "Plaza la Amistad" - \$291,837
- Construction of "Jaguitas" parking - \$258,574
- Improvements to Rincon Lighthouse - \$242,421
- Rio Grande Residential development - \$218,061

The Municipality acquired a total of \$69,879 on equipment during the fiscal year 2006-2007, including \$43,490 in vehicles.

The Municipality's fiscal year 2007-2008 consolidated capital budget calls for a significant amount of projects including the conclusion and reopening of the improved City Hall; reconstruction of the market place (first phase of "Ventana al Mar" project) with an estimated cost of \$1,600,000; the conclusion of the construction of the "Ojo de Agua" Public Parking (\$700,000); the construction of "Plaza de la Amistad" (\$900,000); the improvements to the urban infrastructure of the Municipality (\$300,000); the conclusion to the improvements to the Lighthouse Recreational area" (Phase I \$1,100,000); and the renewal of the construction of the Barrero sanitary sewer (\$2,000,000). 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 F to the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

Long term debt

At year-end, the Municipality had \$4,909,000 in general and special bonds and notes, an increase of 2% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2007 and 2006:

TABLE 5

Outstanding Long-term Debt Fiscal years ended June 30,		
	Governmental Activities	
	2007	2006
General and special obligation bonds and notes	\$ 4,909,000	\$ 4,814,000
Note payable to CRIM – Law No. 42	443,900	451,214
Note payable to CRIM – LIMS	90,255	107,278
Note payable to CRIM – financing of delinquent accounts	51,464	76,714
Line of credit – GDB	578,197	400,121
Payable to CRIM – final settlements of 2003-2004 and 2005-2006 fiscal years	-	28,574
P.R. Department of Treasury - prior years property taxes	21,703	31,719
Compensated absences	1,019,215	1,001,769
Christmas bonus payable	173,319	183,667
Judgments and claims	24,236	97,939
Total	\$ 7,311,289	\$ 7,192,993

The Municipality reported an increase in the other long term debts of \$23,296. This decrease was mostly affected by the net effect from the increase of \$178,076 in the line of credit debt, less decreases of \$73,303 in judgment and claims payable, \$28,574 in the 2003-2004 and 2004-2005 final settlements debt to CRIM, and \$25,250 in the financing delinquent accounts debt. More detailed information about the Municipality's long term liabilities is presented in Note G of the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's officials considered certain factors when setting the fiscal year 2007-2008 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 12.7%, which compares with the Commonwealth rate of 12%. Another important factor that may affect the 2007-2008 budget is the implementation of the new Act. No. 80 which imposes certain restrictions on the use of the resources obtained from the sales and use taxes collected.

For fiscal year 2007-2008 the Municipality applied a conservative approach in developing budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2007-2008 are \$8,300,000 representing an increase of approximately 13% with respect to prior year estimate. Budgeted expenditures are expected to rise according 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 2007-2008 fiscal year. In addition to the general fund estimated budget the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works. The construction industry has been one of the major sources of income generated by the Municipality, contributing with construction permits fees from housing projects. Management believes that this contribution level will be maintained in next year. In addition the sales and use taxes, along to recent impositions in permit fees are expected to increase significantly the income generated by the Municipality.

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, 2007**

ASSETS	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 1,552,548
Receivables, net:	
Sales and use taxes	34,672
Municipal license taxes	1,553
Others	50
Due from:	
Commonwealth Government	1,624,455
Federal Government	325,657
Restricted assets:	
Cash and cash equivalents	6,716,576
Cash with fiscal agent	1,549,519
Deferred bond issuance costs	24,014
Other assets (note E)	407,612
Capital assets (note F):	
Land and construction in progress	10,159,291
Other capital assets, net	<u>13,987,254</u>
Total capital assets, net	<u>24,146,545</u>
Total assets	<u><u>\$ 36,383,201</u></u>

LIABILITIES	
Accounts payable and accrued liabilities	\$ 1,073,501
Interest payable	107,178
Due to:	
Commonwealth Government	123,874
Deferred revenues:	
Municipal License taxes	445,974
Intergovernmental-Commonwealth agencies	667,469
Federal grants	708,959
Long term liabilities (note G):	
Due within one year	1,282,922
Due in more than one year	<u>6,028,367</u>
Total liabilities	<u>10,438,244</u>

NET ASSETS	
Invested in capital assets, net of related debt	20,697,917
Restricted for:	
Debt service	769,551
Capital Projects	5,614,971
Other specified purposes	1,055,659
Unrestricted (deficit)	<u>(2,193,141)</u>
Total net assets	<u><u>\$ 25,944,957</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, 2007

Functions	Program Revenues			Net (expense) revenue and changes in net assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General government	\$ 4,124,297	\$ 999,344	\$ 579,497	\$ 67,222
Public works and sanitation	2,702,592	-	7,002	2,633,078
Public safety	926,982	-	2,198	-
Culture and recreation	551,007	-	24,300	-
Health	320,367	-	-	-
Welfare and community development	818,036	-	303,822	-
Education	3,162	-	-	-
Interest on long term debt	276,625	-	-	-
Total	\$ 9,723,068	\$ 999,344	\$ 916,819	\$ 2,700,300

General revenues :	
Taxes:	
Property taxes	1,750,453
Municipal license taxes	578,679
Sales and use taxes	361,584
Grants contributions not restricted to specific programs	5,333,753
Interest	259,398
Other	112,431
Total general revenues:	8,396,298
Change in net assets	3,289,693
Net assets-beginning, as restated (note R)	22,655,264
Net assets-ending	\$ 25,944,957

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	Major Funds										Total Governmental Funds	
	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	Rural Development Corporation-Marine Facilities	Permanent Capital Improvements	Barrero Sanitary Sewer System	\$1,200,000 GDB Line of Credit	Other Governmental Funds			
Assets												
Cash and cash equivalents	\$ 1,552,548	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,552,548
Receivables, net:												
Sales and use taxes	34,672	-	-	-	-	-	-	-	-	-	-	34,672
License taxes	1,553	-	-	-	-	-	-	-	-	-	-	1,553
Other	50	-	-	-	-	-	-	-	-	-	-	50
Due from:												
Commonwealth Government (note C)	378,280	144,069	81,896	-	-	-	683,864	356,346	-	-	-	1,624,455
Federal Government (note C)	-	-	-	86,614	-	-	-	82,891	-	-	-	325,657
Other funds (note D)	361,243	-	-	-	-	154,152	-	-	-	-	-	361,243
Advances to other funds	-	694,758	-	-	-	-	-	-	5,010	-	-	699,768
Restricted assets:												
Cash and cash equivalents	17,830	2,972,550	-	978	640,000	1,800,221	-	701,415	-	-	-	6,716,576
Cash with fiscal agent	-	-	871,080	-	-	-	-	678,439	-	-	-	1,549,519
Total assets	\$ 2,346,176	\$ 3,811,347	\$ 952,976	\$ 89,592	\$ 640,000	\$ 1,800,221	\$ 683,864	\$ 1,804,101	\$ -	\$ -	\$ -	\$ 12,866,041
Liabilities and Fund Balances												
Liabilities:												
Accounts payable and accrued liabilities	\$ 279,890	\$ 197,889	\$ -	\$ 13,361	\$ -	\$ -	\$ 99,664	\$ 328,545	\$ -	\$ -	\$ -	\$ 1,073,501
Matured bonds and interest payable	-	-	457,879	-	-	-	-	-	-	-	-	457,879
Due to:												
Commonwealth Government	123,874	-	-	-	-	-	-	-	-	-	-	123,874
Other funds (note D)	-	-	7,046	76,231	-	-	-	-	-	-	-	361,243
Advances from other funds	699,768	-	-	-	-	-	-	277,966	-	-	-	699,768
Deferred revenues (note H):												
Municipal license taxes	445,974	-	-	-	-	-	-	-	-	-	-	445,974
Intergovernmental-Commonwealth Government	337,280	-	69,649	-	640,000	-	683,863	123,372	-	-	-	1,864,164
Federal grants	-	-	-	74,479	-	-	-	190,990	-	-	-	1,003,231
Total liabilities	1,866,786	197,889	534,574	164,071	640,000	-	783,527	920,873	-	-	-	6,019,634
Fund Balances (deficit):												
Reserved for:												
Encumbrances	126,336	-	-	-	-	-	-	-	-	-	-	126,336
Debt Service	-	-	418,402	-	-	-	-	-	-	-	-	418,402
Capital projects (note Q)	-	2,918,700	-	(74,479)	-	1,800,221	(99,663)	819,709	-	-	-	5,210,338
Other specified purposes (note Q)	524,270	-	-	-	-	-	-	63,519	-	-	-	587,789
Advances	-	694,758	-	-	-	-	-	-	-	-	-	694,758
Unreserved	(191,216)	3,613,458	418,402	(74,479)	-	1,800,221	(99,663)	883,228	-	-	-	(191,216)
Total fund balances (deficit)	459,390	3,811,347	952,976	89,592	640,000	1,800,221	683,864	883,228	-	-	-	6,846,407
Total liabilities and fund balances (deficit)	\$ 2,346,176	\$ 3,811,347	\$ 952,976	\$ 89,592	\$ 640,000	\$ 1,800,221	\$ 683,864	\$ 1,804,101	\$ -	\$ -	\$ -	\$ 12,866,041

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, 2007**

Total fund balances- governmental funds **\$ 6,846,407**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet: 24,146,545

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

Deferred charges - bond issuance costs	\$ 24,014	
Other assets	407,612	431,626

Other assets are not available to pay current-period expenditures and therefore are deferred in the funds:

Due from Commonwealth Government:

Christmas bonus reimbursement	86,659	
Property taxes- General Fund	154,354	
Property taxes- Debt Service Fund	69,649	
Public Order Code	39,850	
Line of Credit (Office of Management and Budget)	683,863	
Office of Elderly Affairs (OGAVE)	13,704	
Territorial Plan (OCAM)	52,121	
Rural Development Corporation (CDR)	30,078	
Other	56,417	1,186,695

Due from Federal Government:

Federal grant - CDBG	74,479	
Federal Grant - Rural Development	154,152	
Federal Grant - Child Care	65,641	294,272

Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds: (21,299)

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

General obligation bonds and notes	(4,537,000)	
Note payable to CRIM-Law No. 42	(443,900)	
Note payable to CRIM-LIMS	(90,255)	
Note payable to CRIM-financing of delinquent accounts	(51,464)	
Payable to GDB - Line of credit	(578,197)	
Payable to CRIM-excess of property tax advances	(21,702)	
Compensated absences	(1,019,216)	
Christmas Bonus	(173,319)	
Judgments and claims	(24,236)	(6,939,289)

Net assets of governmental activities: **\$ 25,944,957**

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, 2007**

	Major Funds										Total Governmental Funds
	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	Rural Development Corporation- Marine Facilities	Permanent Capital Improvements	Barrero Sanitary Sewer System	\$1,200,000 GDB Line of Credit	Other Governmental Funds	Total Governmental Funds	
Revenues:											
Taxes:											
Property taxes (note I)	\$ 1,024,503	\$ -	\$ 690,370	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,714,873
Municipal license taxes (note J)	578,679	-	-	-	-	-	-	-	-	-	578,679
Sales and use taxes (note K)	361,584	-	-	-	-	-	-	-	-	-	361,584
Intergovernmental:											
Commonwealth Government (note L)	5,737,587	348,689	-	-	-	1,800,221	28,944	406,270	281,000	8,321,711	
Federal Government	-	-	-	395,805	-	-	-	-	-	395,805	
Fees, fines and charges for services	1,047,552	-	-	-	-	-	-	-	-	1,047,552	
Interest	230,788	-	19,999	-	-	-	-	8,611	-	259,398	
Other	107,746	10	-	-	-	-	-	4,673	-	112,429	
Total revenues	9,088,439	348,699	710,369	395,805	-	1,800,221	28,944	700,554	281,000	13,073,031	
Expenditures:											
Current:											
General government	4,283,902	-	7,046	105,940	-	-	20,541	45,388	70,116	4,462,817	
Public works and sanitation	1,959,517	109,809	-	-	-	-	-	-	-	2,139,442	
Public Safety	777,868	-	-	-	-	-	-	-	-	777,868	
Culture and recreation	333,829	-	-	-	-	-	-	19,747	-	353,576	
Health	320,367	-	-	-	-	-	-	-	-	320,367	
Welfare and community development	265,638	19,478	-	118,417	-	-	-	369,896	-	773,429	
Capital outlays	73,757	509,238	-	7,150	-	-	133,630	271,395	-	995,170	
Debt Service:											
Principal	-	-	416,000	-	-	-	-	-	-	416,000	
Interest	-	-	238,480	-	-	-	-	-	-	238,480	
Bond issuance costs	-	-	-	-	-	-	-	-	-	-	
Total expenditures	8,014,878	638,525	661,526	231,507	-	-	154,171	779,192	2,650	10,479,799	
Excess (deficiency) of revenues over expenditures	1,073,561	(289,826)	48,843	164,298	-	1,800,221	(125,227)	(78,638)	(2,650)	2,593,232	
Other financing sources (uses):											
Proceeds from \$1,200,000 GDB credit line	-	-	-	-	-	-	186,480	-	-	186,480	
Proceeds from general obligation bonds	-	-	-	-	-	-	-	540,000	-	540,000	
Payment of \$1,200,000 GDB credit line	-	-	-	-	-	-	(8,403)	-	-	(8,403)	
Transfers in	103,797	(79,932)	206,618	-	-	-	-	92,333	-	402,748	
Transfers (out)	(289,483)	(79,932)	(12,953)	-	-	-	-	(20,380)	-	(402,748)	
Total other financing resources (uses)	(185,686)	(79,932)	193,665	-	-	-	178,077	611,953	-	718,077	
Net change in fund balances	887,875	(369,758)	242,508	164,298	-	1,800,221	52,850	533,315	(2,650)	3,311,309	
Fund balance at beginning of year, as restated (note B)	(428,485)	3,983,216	175,894	(238,777)	-	-	(154,150)	349,913	-	3,535,098	
Fund balance at end of year	\$ 459,390	\$ 3,613,458	\$ 418,402	\$ (74,479)	\$ -	\$ 1,800,221	\$ (99,669)	\$ 883,228	\$ -	\$ 6,846,407	

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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, 2007**

Net change in fund balances - total governmental funds: \$ 3,311,309

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	\$ 870,641	
Less: current year depreciation	<u>(866,421)</u>	4,220

Governmental funds report the effect of bond issuance costs as expenditure when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences:

Bond issuance costs	2,650	
Amortization of bond issuance costs	<u>(2,645)</u>	5

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

Christmas bonus reimbursement	86,659	
Property Taxes-General Fund	154,354	
Property Taxes-Debt Service Fund	69,649	
Public Order Code	39,850	
Line of Credit (Office of Management and Budget)	125,227	
Territorial Plan (OCAM)	9,405	
Federal Grant - Child Care	65,641	
Federal Grant - CDBG	74,479	
Others	<u>56,917</u>	682,181

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

Christmas bonus reimbursement-prior year	(91,836)	
Property Taxes-General Fund	(102,383)	
Property Taxes-Debt Service Fund	(86,040)	
P.R. Department of Labor (Law No. 52)	(19,996)	
Rural Development Corporation (CDR)	(47,652)	
Special Communities	(8,624)	
Federal Grants - CDBG	(238,777)	
Federal Grants - Child Care	(18,449)	
Federal Grants - Pre - Disaster Mitigation Plan (FEMA)	<u>(11,442)</u>	(625,199)

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:

(726,480)

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

Expenditures for other assets	124,529	
Matured bonds principal payments (net change)	<u>(29,000)</u>	95,529

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	445,000	
Other long term liabilities	<u>418,633</u>	863,633

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	(77,895)	
Christmas bonus	(173,319)	
Judgment and Claims	(4,236)	
Accrued interest (net change)	1,138	
Others	<u>(61,193)</u>	<u>(315,505)</u>

Change in net assets of governmental activities: \$ 3,289,693

The accompanying notes are an integral part of these statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

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 exists between the primary government and the potential component unit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

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 the analysis the private sector provides in their annual reports.

Basic financial statements

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

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 and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants revenue is recognized after allowable expenditures are incurred. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

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.

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 Resolutions 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Permanent Capital Improvements Fund: The Permanent Capital Improvement fund is used to account for the moneys received from the \$575,000,000 in 2006 Series A Public Improvement Bonds issued by Commonwealth Government. The financial resources received by this fund will finance the construction project of "Ventana al Mar", construction of a batting camp facility, and construction project "Remodelacion Parque Pasivo El Faro"

Barrero Sanitary Sewer System Fund: This fund accounts for revenue sources from a grant provided by the USDA Rural Development for specific purposes that is, the construction of a sanitary sewer system for the Barrero's community.

\$1,200,000 GDB Line of Credit Fund: This fund accounts for proceeds from a line of credit provided by the Governmental Development Bank of P.R. (GDB) and revenue sources from the Commonwealth for its corresponding payment for specific purposes that is, the construction of the new City Hall.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

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 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.

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 \$500 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:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

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

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

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).

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

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

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.

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).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

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 transfers, which are legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "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 deducted monthly from advances of property tax and amounts of municipal equalization funds sent 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.

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:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
43 Financial Reporting for Post employment Benefits Plans Other Than Pension Plans	June 30, 2008
45 Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions	June 30, 2009
48 Sales and Pledges of Receivables and Future Revenues and Intra-entity Transfers of Assets and Future Revenues	June 30, 2008
49 Accounting and Financial Reporting for Pollution Remediation Obligations	June 30, 2009
50 Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27	June 30, 2008
51 Accounting and Financial Reporting for Intangible Assets	June 30, 2010

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

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 amounted to \$8,313,239.

Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At year-end the Municipality's bank balance in governmental banks amounts to \$1,549,519.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE C- DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2007 follows:

	<u>Commonwealth Government</u>	<u>Federal Government</u>
P. R. Department of Education	\$ 41,000	\$ -
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	81,896	-
Municipal Revenue Collection Center (CRIM)- current year liquidation (general fund)	154,354	-
Puerto Rico Department of Treasury – Christmas Bonus Reimbursement	86,659	-
P.R. Police Department - Public Order Code	39,850	-
P.R. Department of Labor – Law No.52	24,903	-
P.R. Department of Labor – Law No.82	31,514	-
Office of Elderly Affairs	87,840	-
\$1,200,000 Line of credit (Office of Management and Budget)	683,864	-
Office of Management and Budget – Capital Improvement Funds	166,307	-
Rural Development Corporation	30,078	-
Office of Commissioner of Municipal Affairs – Territorial Plan	52,121	-
Office of Management and Budget – Commonwealth Legislature Resolutions	144,069	-
Office of Commissioner of Municipal Affairs - CDBG	-	88,614
Rural Development	-	154,152
P.R. Department of Family – Child Care	-	65,641
Federal Emergency Management Agency – Pre- Disaster Mitigation	-	17,250
	<u>\$ 1,624,455</u>	<u>\$ 325,657</u>

Certain amounts are recorded as deferred revenue in the governmental funds statements since they are not available as required by current standards. See related note H.

2. Amounts due to governmental entities as of June 30, 2007 follows:

	<u>Commonwealth Government</u>
Employees Retirement System (ERS)	\$ 105,120
P.R. General Services Administration	7,387
P.R. Aqueduct and Sewer Authority (PRASA)	11,367
	<u>\$ 123,874</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE D- INTERFUND TRANSACTIONS

1. Due from/to other funds

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

Receivable Fund	Payable Funds	Amount
General Fund	Major Funds:	
	CDBG	\$ 76,231
	Debt Service	7,046
	Other Governmental Funds:	
	Child Care	42,697
	Office of Elderly Affairs	108,621
	FEMA-Public Assistance	25,400
	FEMA-Pre Disaster Mitigation	17,250
	Rural Development Corporation	52,121
	Territorial Plan	30,078
	Other	1,799
Total:		\$ 361,243

2. Advances to other funds

Advances to other funds includes \$694,758 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.

3. 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, on Commonwealth Legislature Funds and on 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.

NOTE E- OTHER ASSETS

Other assets include furniture and computer related equipment acquired for the new City Hall but not in use as of June 30, 2007, amounting to \$407,612.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE F- CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2007 is as follows:

	Balance July 1, 2006, as restated	Increases	Decreases	Balance June 30, 2007
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 3,858,243	\$ 5,000	\$ -	\$ 3,863,243
Construction in progress	5,620,418	742,630	67,000	6,296,048
Total capital assets not being depreciated:	9,478,661	747,630	67,000	10,159,291
Capital assets, being depreciated:				
Land improvements	-	6,799	-	6,799
Buildings and building improvements	11,900,828	94,334	-	11,995,162
Infrastructure	6,000,220	19,000	-	6,019,220
Vehicles, machinery and equipment	5,857,743	69,879	-	5,927,622
Total capital assets being depreciated	23,758,791	190,012	-	23,948,803
Less accumulated depreciation for:				
Land improvements	-	545	-	545
Buildings and building improvements	2,928,594	203,322	-	3,131,916
Infrastructure	2,856,308	203,394	-	3,059,702
Vehicles, machinery and equipment	3,310,226	459,160	-	3,769,386
Total accumulated depreciation	9,095,128	866,421	-	9,961,549
Total capital assets being depreciated, net	14,663,663	(676,409)	-	13,987,254
Governmental activities capital assets, net	\$ 24,142,324	\$ 71,221	\$ 67,000	\$ 24,146,545

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

Governmental activities:

General government	\$ 26,474
Public works and sanitation	538,729
Public safety	71,407
Culture and recreation	197,323
Welfare and community development	30,751
Education	1,737
Total depreciation expense, governmental activities	\$ 866,421

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE F- 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 G- 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, 2007:

	<u>Balance at July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2007</u>	<u>Due within one year</u>
General, Special Obligation Bonds and Notes	\$ 4,814,000	\$ 540,000	\$ 445,000	\$ 4,909,000	\$ 419,000
Note payable to CRIM-Law No. 42	451,214	-	7,314	443,900	7,774
Note payable to CRIM-LIMS	107,278	-	17,023	90,255	18,051
Note payable to CRIM-financing of delinquent accounts	76,714	-	25,250	51,464	2,059
Line of credit - GDB	400,121	186,479	8,403	578,197	578,197
Payable to CRIM- final settlements 03-04 and 04-05	28,574	-	28,574	-	-
Payable to Puerto Rico Treasury Department - prior years property taxes	31,718	-	10,016	21,703	10,015
Compensated absences	1,001,769	77,895	60,448	1,019,215	50,271
Christmas Bonus	183,666	173,319	183,666	173,319	173,319
Judgments and legal claims	97,939	4,236	77,939	24,236	24,236
	<u>\$ 7,192,993</u>	<u>\$ 981,929</u>	<u>\$ 863,633</u>	<u>\$ 7,311,289</u>	<u>\$ 1,282,922</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE G- 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, 2007 amount to \$4,909,000. 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, 2007 follows:

	<u>Outstanding Amount</u>
1994 public improvement bonds of \$721,000 due in annual installments of \$17,000 to \$52,000 through January 1, 2017; bearing interest at 5.0%	\$ 415,000
2000 special obligation bonds of \$910,000 due in annual installments of \$65,000 to \$125,000 through July 1, 2010; bearing interest at rates ranging from 5.0% to 8.0% (6.37% at June 30, 2007)	445,000
2002 special obligation bonds of \$635,000 due in annual installments of \$5,000 to \$50,000 through January 1, 2027; bearing interest at rates ranging from 5.0% to 7.50% (5.08% at June 30, 2007)	595,000
2002 general obligation bonds of \$1,660,000 due in annual installments of \$25,000 to \$130,000 through July 1, 2026; bearing interest at rates ranging from 2.8% to 5.6% (3.54% at June 30, 2007)	1,505,000
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%	493,000
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% (4.17% at June 30, 2007)	190,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE G- LONG-TERM DEBT-Continued

	Outstanding Amount
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% (6.62% at June 30, 2007)	161,000
2005 general obligation notes of \$645,000 due in annual installments of \$80,000 to \$115,000 through July 1, 2012; bearing interest at rates ranging from 4.23% to 4.73% (4.17% at June 30, 2007)	565,000
2007 general obligation notes of \$540,000 due in annual installments of \$60,000 to \$100,000 through July 1, 2013; bearing interest at rates ranging from 6.60% to 7.50% (6.60% at June 30, 2007)	540,000
	\$ 4,909,000

The debt services requirement to amortize general and special obligation bonds and notes as of June 30, 2007 follows:

June 30,	Principal	Interest
2008	\$ 419,000	\$ 252,798
2009	441,000	226,437
2010	470,000	199,062
2011	427,000	172,814
2012	326,000	155,086
2013-2017	1,114,000	565,670
2018-2022	675,000	367,805
2023-2027	918,000	142,974
2028-2029	119,000	2,954
Totals	\$ 4,909,000	\$ 2,085,600

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE G- LONG-TERM DEBT-Continued

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:

\$ 443,900

June 30,	Principal	Interest
2008	\$ 7,774	\$ 27,548
2009	8,262	27,310
2010	8,781	26,340
2011	9,333	25,889
2012	9,919	25,103
2013-2017	59,766	115,003
2018-2022	81,055	94,485
2023-2027	109,927	65,681
2028-2032	149,083	26,656
Totals	\$ 443,900	\$ 434,015

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE G- LONG-TERM DEBT-Continued

**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:

90,255

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 18,051	\$ 5,016
2009	19,141	3,921
2010	20,297	2,759
2011	21,522	1,527
2012	11,244	279
Totals	<u>\$ 90,255</u>	<u>\$ 13,502</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE G- 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 were 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 was credited to the loan principal. After the 5 year period the loan outstanding balance was restructured for a 25 years period. Debt service requirements in future years are as follows:

51,464

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 2,059	\$ 3,201
2009	2,059	3,073
2010	2,059	2,945
2011	2,059	2,819
2012	2,059	2,689
2013-2017	10,293	11,524
2018-2022	10,292	8,323
2023-2027	10,292	5,122
2028-2032	10,292	1,920
Totals	<u>\$ 51,464</u>	<u>\$ 41,616</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE G- LONG-TERM DEBT-Continued

	Outstanding Amount
<p>Line of credit, Government Development Bank of P.R. (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 June 30, 2007 (see related note P). This line of credit will be repaid from Commonwealth’s Public Improvements Fund (RC del S. 1474 of November 9, 2003), up to a maximum amount of \$1,200,000, commencing on fiscal year 2004-2005 through fiscal year 2006-2007.</p>	578,197
<p>Payable to Puerto Rico Treasury Department, prior years property taxes - 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>	21,702
<p>Compensated absences - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time, represents the Municipality’s commitment to fund such costs from future operations. Amount is paid with unrestricted funds</p>	1,019,216
<p>Christmas Bonus - represent the accrued portion corresponding to fiscal year 2006-2007 of the Christmas bonus to be paid in December 2007.</p>	173,319
<p>Claims and judgments - represent the final costs of a legal case paid subsequent to June 30, 2007. The awarded amount will be paid with unrestricted funds.</p>	24,236

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE H - DEFERRED REVENUES

Deferred revenues represent revenues not available as required by current standards and \ or resources received before allowable expenditures are incurred. A detail of these balances as presented in fund statements follows:

	<u>Commonwealth Government</u>	<u>Federal Government</u>
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	\$ 69,649	\$ -
Municipal Revenue Collection Center (CRIM)- current year liquidation (general fund)	154,354	-
Puerto Rico Department of Treasury – Christmas Bonus Reimbursement	86,659	-
P.R. Police Department - Public Order Code	67,319	-
P.R. Department of Labor – Law No.52	24,903	-
P.R. Department of Labor – Law No.82	31,514	-
Office of Elderly Affairs	13,703	-
\$1,200,000 Line of credit (Office of Management and Budget)	683,864	-
Rural Development Corporation – Marine Facilities	640,000	-
Rural Development Corporation - Others	30,078	-
Office of Commissioner of Municipal Affairs – Territorial Plan	52,121	-
Office of Commissioner of Municipal Affairs - CDBG	-	74,479
Rural Development	-	737,762
P.R. Department of Family – Child Care	-	65,641
P.R. Department of Education – Food Program	-	14,112
FEMA	-	111,237
	<u>\$ 1,854,164</u>	<u>\$ 1,003,231</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE I – PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2007 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

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

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

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A receivable from the CRIM of \$154,354 resulting from the preliminary settlement for the fiscal year 2006-2007 is recorded as deferred revenue in the fund statements since is not available as required by current standards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE J – 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, 2007, 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 \$ 445,974 is recorded as deferred revenues.

NOTE K – SALES AND USE TAXES

On July 4, 2006 the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The municipal sales and use tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The municipal sales and use tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within Municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on November 15, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

Municipal sales and use tax receivable of \$34,672 represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 20, net of uncollectible accounts.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE L – INTERGOVERNMENTAL REVENUES

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

	Amount
Amount of municipal equalization fund and subsidy send by CRIM	\$ 4,023,343
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,070,888
Reimbursement from Commonwealth Government - Christmas Bonus expenditures	148,559
Puerto Rico Department of Labor – Law No.52	394,996
Puerto Rico Department of Labor – Law No.82	85,755
Other intergovernmental revenues	14,046
	\$ 5,737,587

NOTE M – 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, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. 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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE M – RETIREMENT PLAN - Continued

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 9.275% of gross salary.

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

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>System 2000</u>
2007	\$ 95,301	\$ 83,828
2006	\$ 103,093	\$ 82,876
2005	\$ 109,917	\$ 76,393

NOTE N – POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note M, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. Total debt reported by ERS to the Municipality amounts to \$103,433 of which \$33,020 representing current year costs were paid prior to June 30. The remaining amount was accrued in the general fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE O – COMMITMENTS

1. *Operating leases*

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to \$28,113. 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*

As of June 30, 2007 the Municipality maintained unspent agreements of \$2,996,010 for design, construction, improvements or renovation of certain municipal facilities.

NOTE P – CONTINGENCIES

1. *Federal and Commonwealth Grants*

Projects financed by the Federal and Commonwealth Grants are subject to audits by grantors and other governmental agencies in order to determine 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, 2007 and not to be covered by insurance, the Municipality accrued \$24,236 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.

3. *Expiration of line of credit agreement*

As stated in note G, the Municipality entered into a \$1,200,000 line of credit agreement with GDB to finance construction costs of the New City Hall. The line of credit is being repaid from Commonwealth's Public Improvements Fund appropriations maintained by the Puerto Rico Office of Management and Budget (PROMB). Under this agreement construction costs incurred and billed to the Municipality are paid to contractors (net of 10% retention) by GDB through the line of credit. Then, and from the referred appropriations, PROMB reimburse GDB these costs plus interest expense. Line of credit outstanding balance at year-end represents amounts paid by GDB but not reimbursed by PROMB.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE P – CONTINGENCIES - Continued

The line of credit agreement expired on June 30, 2007. Subsequent to this date the Municipality requested to GDB an extension to the agreement up to June 30, 2008 stating that (1) the project is almost completed and, (2) the only remaining costs to be paid are the related 10% retention. At present, the extension approval has not been granted to the Municipality. Incurred 10% retention costs not paid to contractors by GDB amounts \$102,454 at June 30, 2007. The final outcome of this matter is undeterminable.

NOTE Q – FUND BALANCE DEFICITS

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

<u>Funds</u>	<u>Amount</u>
Major Funds:	
Community Development Block Grant Program	<u>\$ 74,479</u>
Barrero Sanitary Sewer System	<u>\$ 154,150</u>
\$1,200,000 GDB Line of Credit	<u>\$ 99,663</u>
Other Governmental Funds:	
Territorial Plan	<u>\$ 52,121</u>
Rural Development Corporation	<u>\$ 30,078</u>

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 (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

NOTE R - FUND BALANCE AND NET ASSETS RESTATEMENTS

The following table disclosed the change to the balance of net assets at beginning of year as previously reported in the statement of net assets and to the fund balance of the \$1,200,000 GDB Line of Credit Fund at beginning of year as previously reported in the statement of revenues, expenditures and changes in fund balances. The change in government wide statements resulted from the recording of a land lot donated by the P.R. Department of Recreation and Sports in previous years. The change in the fund statements resulted from the correction of an understatement of a deferred revenue for amounts not available as required by current standards. The beginning balances have been restated as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE R - FUND BALANCE AND NET ASSETS RESTATEMENTS - Continued

	Net Assets	Fund balance, \$1,200,000 GDB Line of Credit Fund
Balance at beginning of year, as previously reported:	\$ 22,260,924	\$ 303,669
Correction of error, understatement of capital assets	394,340	-
Correction of error, understatement of deferred revenue	-	(456,182)
	<u>\$ 22,655,264</u>	<u>\$ (152,513)</u>
Balance at beginning of year, as restated:	<u>\$ 22,655,264</u>	<u>\$ (152,513)</u>

NOTE S – SUBSEQUENT EVENTS

Sales and use tax implementation

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% will be collected by the Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amounts collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- a..2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b..2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by the Act and,
- c..1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80.

Required Supplementary Information

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Taxes:				
Property taxes	\$ 1,415,028	\$ 1,617,740	\$ 1,652,210	\$ 34,470
Municipal license taxes	472,000	472,000	577,431	105,431
Sales and use taxes	-	132,000	326,912	194,912
Intergovernmental	4,422,749	4,542,249	4,589,833	47,584
Fees, fines and charges for services	972,600	972,600	953,387	(19,213)
Interest	25,000	273,000	329,541	56,541
Other	27,623	27,623	36,816	9,193
Total revenues	<u>7,335,000</u>	<u>8,037,212</u>	<u>8,466,130</u>	<u>428,918</u>
<u>EXPENDITURES:</u>				
Current:				
General government	3,499,226	3,871,594	3,670,530	201,064
Public works and sanitation	1,913,684	1,975,324	1,957,090	18,234
Public safety	804,438	771,627	759,724	11,903
Culture and recreation	338,124	342,338	336,614	5,724
Health	320,368	320,368	320,367	1
Welfare and community development	269,885	268,830	266,337	2,493
Total expenditures	<u>7,145,725</u>	<u>7,550,081</u>	<u>7,310,662</u>	<u>239,419</u>
Excess of revenues over expenditures	189,275	487,131	1,155,468	668,337
<u>Other financing sources (uses):</u>				
Transfers out	(189,275)	(487,131)	(486,006)	1,125
Total other financing sources (uses)	<u>(189,275)</u>	<u>(487,131)</u>	<u>(486,006)</u>	<u>1,125</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 669,462</u>	<u>\$ 669,462</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 – GENERAL FUND
JUNE 30, 2007

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 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 30,2007**

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	\$ 669,462
 Budget to GAAP differences:	
Entity differences:	
Non budgeted funds recorded as revenues for financial reporting purposes:	551,808
Non budgeted funds recorded as expenditures for financial reporting:	(708,367)
Non budgeted transfers in:	297,855
Non budgeted transfers out:	(9,512)
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis:	179,280
Revenues recorded in budgetary basis purposes but not in financial reporting:	(4,469)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	79,065
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(241,013)
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	97,396
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(23,630)
Net change in fund balance (GAAP basis):	\$ 887,875

Supplementary Information

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
FINANCIAL DATA SCHEDULE
BALANCE SHEET INFORMATION
JUNE 30, 2007**

**6/30/2007
Section 8 Housing
Choice Vouchers
14.871**

<u>Line Item Number</u>	ASSETS	
	Current Assets	
	Cash:	
111	Cash - unrestricted	\$ 472
113	Cash - other restricted	<u>6,059</u>
100	Total cash	<u>6,531</u>
150	Total Current Assets	<u>6,531</u>
	Noncurrent Assets	
	Fixed assets	
164	Furniture, equipment & machinery - administration	2,009
166	Accumulated depreciation	<u>(1,576)</u>
160	Total fixed assets, net of accumulated depreciation	<u>433</u>
180	Total Noncurrent Assets	<u>433</u>
190	TOTAL ASSETS	<u><u>\$ 6,964</u></u>
	LIABILITIES AND EQUITY	
	LIABILITIES	
	Current Liabilities	
322	Accrued compensated absences - current portion	\$ 372
347	Inter-program - due to	<u>1,334</u>
310	Total Current Liabilities	<u>1,706</u>
300	TOTAL LIABILITIES	1,706
	EQUITY	
508.1	Invested in Capital Assets, Net of Related Debt	433
509	Restricted Net Assets	6,059
512.1	Unrestricted Net Assets	<u>(1,234)</u>
513	TOTAL EQUITY/NET ASSETS	<u>5,258</u>
600	TOTAL LIABILITIES and EQUITY/NET ASSETS	<u><u>\$ 6,964</u></u>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
FINANCIAL DATA SCHEDULE
STATEMENT OF REVENUES AND EXPENSES INFORMATION
FISCAL YEAR ENDED JUNE 30, 2007

<u>Line Item Number</u>		<u>6/30/2007 Section 8 Housing Choice Vouchers 14,871</u>
703		
	REVENUES:	
706	HUD PHA operating grants	\$ 118,973
715	Other revenue	846
700	TOTAL REVENUES	119,819
	EXPENSES:	
	Administrative	
911	Administrative salaries	11,691
912	Auditing fees	4,268
916	Other operating- administrative	240
	Subtotal	16,199
969	TOTAL OPERATING EXPENSES	16,199
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	103,620
973	Housing assistance payments	101,375
974	Depreciation expense	109
900	TOTAL EXPENSES	117,683
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ 2,136
MEMO account information		
1103	Beginning equity	5,039
1104	Prior period adjustments, equity transfers and correction of errors	(1,917)
1120	Unit months available	408
1121	Number of unit months leased	371

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
June 30, 2007

NOTE A – BASIS OF PRESENTATION

The accompanying financial data schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

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

SINGLE AUDIT SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Entity Identifying Number (note C)	Federal Expenditures (note A)
<u>U.S. Department of Agriculture</u>			
Passed through the P.R. Department of Education: Child and Adult Care Food Program	10.558	N/AV	\$ 14,772
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Office of Commissioner of Municipal Affairs (OCAM): Community Development Block Grant - State's Program	14.228	AB - 53 FD - 53	231,507
Section 8 Housing Choice Vouchers	14.871	N/A	119,491
Subtotal U.S. Department of Housing and Urban Development			<u>350,998</u>
<u>U.S. Department of Labor</u>			
Passed through the Northwestern Consortium: WIA Adult Program	17.258	2006-000234 2007-000106	17,795
<u>U.S. Department of Health and Human Services</u>			
Passed through the Puerto Rico Governor's Office - (Office of Elderly Affairs): Special Programs for the Aging_ Title III Part B_ Grants for Supportive Services and Senior Centers	93.044	N/AV	38,361
Special Program for the Aging_ Title III Part C-1_ and C-2_ Grants for Supportive Services and Seniors Centers	93.045	N/AV	16,051
National Family Caregiver Support, Title III, Part E	93.052	Period 11/2006 to 09/2007	20,741
Passed through the P.R. Department of Family - Families and Children Administration: Child Care and Development Block Grant	93.575	2006-000086 2007-000047	72,156
Subtotal U.S. Department of Health and Human Services			<u>147,309</u>
<u>U.S. Department of Homeland Security-Federal Emergency Management Agency (FEMA)</u>			
Passed through the Puerto Rico Governor's Office - (Governor's Authorized Representative-GAR): Disaster Grants - Public Assistance	97.036	FEMA 1152-DR-PR	39,653
Passed through the P.R. State Emergency Management Agency: Pre-Disaster Mitigation	97.047	PDMC-PL-02-PR-2003-041	5,808
Subtotal U.S. Department of Homeland Security			<u>45,461</u>
Total Expenditures of Federal Awards			<u><u>\$ 576,335</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, 2007**

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	\$ -	\$ 14,772
14.228	231,507	-
14.871	-	119,491
17.258	-	17,795
93.044	-	38,361
93.045	-	16,051
93.052	-	20,741
93.575	-	72,156
97.036	-	39,653
97.047	-	5,808
Total federal awards expenditures:	231,507	344,828
Total non-federal awards expenditures:	-	434,364
Total expenditures, fund statements:	\$ 231,507	\$ 779,192

VALDES, GARCIA, MARIN & MARTINEZ, LLP

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

PARTNERS:

ERNESTO VALDÉS
ARTURO GARCÍA SÁNCHEZ
RAMÓN MARÍN
LUZ N. MARTÍNEZ

P.O. Box 364831
SAN JUAN, P.R. 00936-4831
TELEPHONE: (787) 725-1600
TELEFAX: (787) 721-2795

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Rincon as of and for the year ended June 30, 2007 which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated December 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

Compliance and other matters

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

We noted certain other matters that we reported to management of the Municipality in a separate letter dated December 26, 2007.

This report is intended solely 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 these specified parties. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico
December 26, 2007



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to the original

VALDES, GARCIA, MARIN & MARTINEZ, LLP

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

PARTNERS:

ERNESTO VALDÉS
ARTURO GARCÍA SÁNCHEZ
RAMÓN MARÍN
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P.O. BOX 364831
SAN JUAN, P.R. 00936-4831
TELEPHONE: (787) 725-1600
TELEFAX: (787) 721-2795

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

*Mayor and Members of the 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, 2007. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

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

In our opinion, 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, 2007.

Internal Control Over Compliance

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the 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 the internal control over compliance in accordance with OMB *Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

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 these specified parties. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico
December 26, 2007



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to the original

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Audit Results

Year ended June 30, 2007

I. Summary of audit results:

Part I - Financial Statements

1. Type of audit report: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
2. Reportable conditions reported: Yes No
3. Reportable conditions reported as a material weakness: Yes None reported
4. Material noncompliance disclosed: Yes No

Part II - Federal Awards

1. Reportable conditions reported: Yes No
2. Reportable conditions reported as a material weakness: Yes None reported
3. Type of report on compliance on major programs: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
4. Audit findings required to be reported under Section 510(a) of Circular A-133: Yes No

5. Major programs:

	CFDA Number(s)	Name of Federal Program or Cluster
	14.228	Community Development Block State's Program
	14.871	Section 8 Housing Choice Vouchers

6. Dollar threshold used to distinguish Type A and Type B programs: \$300,000
7. Low-risk auditee: Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCÓN**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2007

Financial Statements 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>
2006	2006 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.	Finding was corrected.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2007

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>
2005	US D of A – Rural Development: Water and Waste Disposal System for Rural Communities –CFDA No. 10.760	2005 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).
2004	2004 II-2		The Municipality received from the Common- wealth'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).

FORM **SF-SAC**
(5-2004)

**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)

1. Fiscal period ending date for this submission

Month Day Year
06 / 30 / 2007

Fiscal Period End Dates Must Be in 2004, 2005, or 2006

2. Type of Circular A-133 audit

1 Single audit 2 Program-specific audit

3. Audit period covered

1 Annual 2 Biennial 3 Other - Months

4. FEDERAL GOVERNMENT USE ONLY

Date received by Federal clearinghouse

5. Auditee Identification Numbers

a. Primary Employer Identification Number (EIN)

6 6 - 0 4 3 3 5 2 9

b. Are multiple EINs covered in this report? 1 Yes 2 No

c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.

d. Data Universal Numbering System (DUNS) Number

- -

e. Are multiple DUNS covered in this report? 1 Yes 2 No

f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.

6. AUDITEE INFORMATION

a. Auditee name

MUNICIPALITY OF RINCON

b. Auditee address (Number and street)

P.O. BOX 97

City

RINCON

State

ZIP + 4 Code

PR

0 0 6 7 7 -

c. Auditee contact

Name

MR. FRANCISCO MERCADO SILVA

Title

FINANCE DIRECTOR

d. Auditee contact telephone

(787) 823 - 2575

e. Auditee contact FAX

(787) 823 - 2454

f. Auditee contact E-mail

COMPRAS-RINCON@HOTMAIL.COM

9. 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
31 / 131 / 08

Printed Name of certifying official

Printed Title of certifying official

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name

VALDES, GARCIA, MARIN & MARTINEZ, LLP

b. Auditor address (Number and street)

P.O. BOX 364831

City

SAN JUAN

State

ZIP + 4 Code

PR

0 0 9 3 6 - 4 8 3 1

c. Auditor contact

Name

ERNESTO VALDES

Title

PARTNER

d. Auditor contact telephone

(787) 725 - 1600

e. Auditor contact FAX

(787) 721 - 2795

f. Auditor contact E-mail

EVALDES@VGMCPA.COM

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 / 28 / 08

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

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 2

PART III

FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR		10. AUDIT FINDINGS							
Federal Agency Prefix ¹ (a)	CFDA Number Extension ² (b)	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
						Major program	if yes, type of audit report 3 (h)		
1 0	.558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE	\$ 14,772.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	U	O	N/A
1 4	.228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT-STATES PROGRAM	\$ 231,507.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
1 4	.871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 119,491.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
1 7	.258	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WIA ADULT PROGRAM	\$ 17,795.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 3	.044	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR THE AGING-TITLE III PART B	\$ 38,361.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 3	.045	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR THE AGING-TITLE III PART C-1 AND C-2	\$ 16,051.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 3	.052	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NATIONAL FAMILY CAREGIVER SUPPORT, TITLE III PART F.	\$ 20,741.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 3	.575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 72,156.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 7	.036	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	DISASTER GRANTS-PUBLIC ASSISTANCE	\$ 39,653.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 7	.047	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PRE-DISASTER MITIGATION	\$ 5,808.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
TOTAL FEDERAL AWARDS EXPENDED				\$ 576,335.00					

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

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)
³ 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.
⁴ 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.
⁵ N/A for NONE

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

PART I Item 5 Continuation Sheet

f. List the multiple DUNS covered in the report.

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

f. List the multiple DUNS covered in the report.		g. List the multiple Employer Identification Numbers (EINs) covered in this report.	
1	N / A	21	N / A
2	-	22	-
3	-	23	-
4	-	24	-
5	-	25	-
6	-	26	-
7	-	27	-
8	-	28	-
9	-	29	-
10	-	30	-
11	-	31	-
12	-	32	-
13	-	33	-
14	-	34	-
15	-	35	-
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		58	-
		59	-
		60	-

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