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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

***FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT***

FISCAL YEAR ENDED JUNE 30, 2008



Mr. Carlos López-Bonilla

Mayor

***Mr. Francisco Mercado-Silva,
CPA***

Finance Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Rincón (the Municipality), as of and for the year ended June 30, 2008, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financing reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Rincón, as of June 30, 2008 and 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 31, 2008, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

The Management Discussion and Analysis on pages 3 through 13 and Budgetary Comparison Schedule - General Fund on page 50 are not a 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. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied 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. The Financial Data Schedule supplementary information on pages 53 through 55 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Valdes, Garcia, Marin & Martinez, LLP

San Juan, Puerto Rico
December 31, 2008

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to the original.

Management's Discussion and Analysis

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

The following discussion will provide an overview of the Municipality's financial activities for the fiscal year ended June 30, 2008 through an analysis of the financial performance of the Municipality of Rincón. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

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

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2008 by \$28,292,512 (net assets).
- Revenues increased by 12% while expenses increased by 26% in comparison with fiscal year 2007.
- Net change in net assets amounted to \$2,347,555, a decrease of 29% with respect to prior year's 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 June 30, 2008, a negative net change in the fund balances of the Municipality's governmental funds in the amount of \$1,527,571 resulted in combined ending fund balances of \$5,318,836. Approximately 16% 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 \$544,371 and an unreserved fund balance of \$842,428. In the prior year there was an unreserved fund deficit of \$191,216.

General Financial Highlights

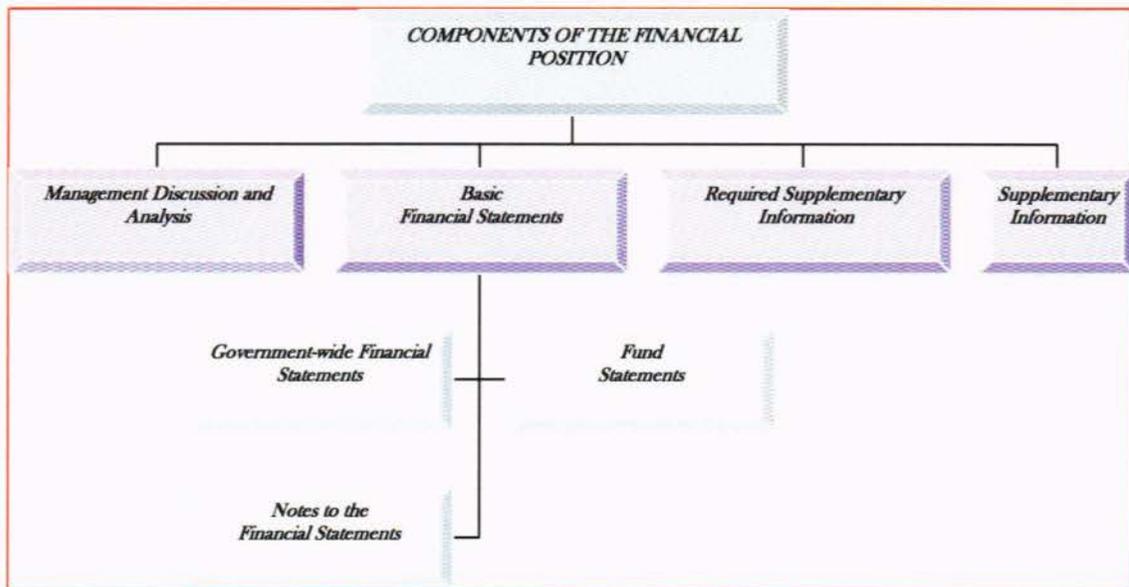
- The investment in capital assets as of June 30, 2008 was \$28,321,019 (net of depreciation).
- Long-term debt decreased to \$7,175,686, approximately 2% with respect to prior year.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$51,102.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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 the 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 the cash is received or paid.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

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

- ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well 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 comply 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
FISCAL YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

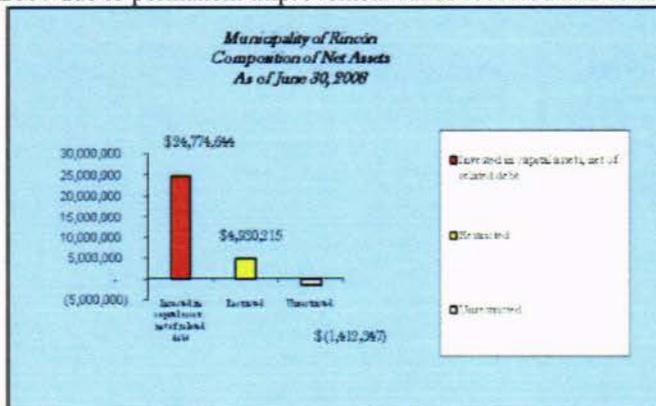
Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2008 and 2007:

TABLE 1

<i>Summary Statement of Net Assets As of June 30,</i>		
	Governmental Activities	
	2008	2007
Assets		
Current and other assets	\$ 11,666,225	\$ 12,236,656
Capital assets	28,321,019	24,146,545
Total assets	\$ 39,987,244	\$ 36,383,201
Liabilities		
Current and other liabilities	\$ 4,519,046	\$ 3,126,955
Long term liabilities	7,175,686	7,311,289
Total liabilities	11,694,732	10,438,244
Net assets		
Invested in capital assets, net of related debt	24,774,644	20,697,917
Restricted	4,930,215	7,440,181
Unrestricted (deficit)	(1,412,347)	(2,193,141)
Total net assets	\$ 28,292,512	\$ 25,944,957

Net assets (assets over liabilities) may serve over the time as a useful indicator of a government's financial position. At June 30, 2008, assets exceeded its liabilities by \$28,292,512 representing an increase of 9% with respect to year 2007 due to permanent improvement funds received and collections from sales and use taxes.



The largest portion of the Municipality's net assets reflects its investment in capital assets (i.e., 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.

MUNICIPALITY OF RINCON

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

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 2008, the Municipality presented an unrestricted net assets deficit. This deficit primarily arose from long-term obligations such as compensated absences and debts to CRIM for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay-as-you-go basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as invested in capital assets, net of related debt. 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 2008 and 2007:

TABLE 2

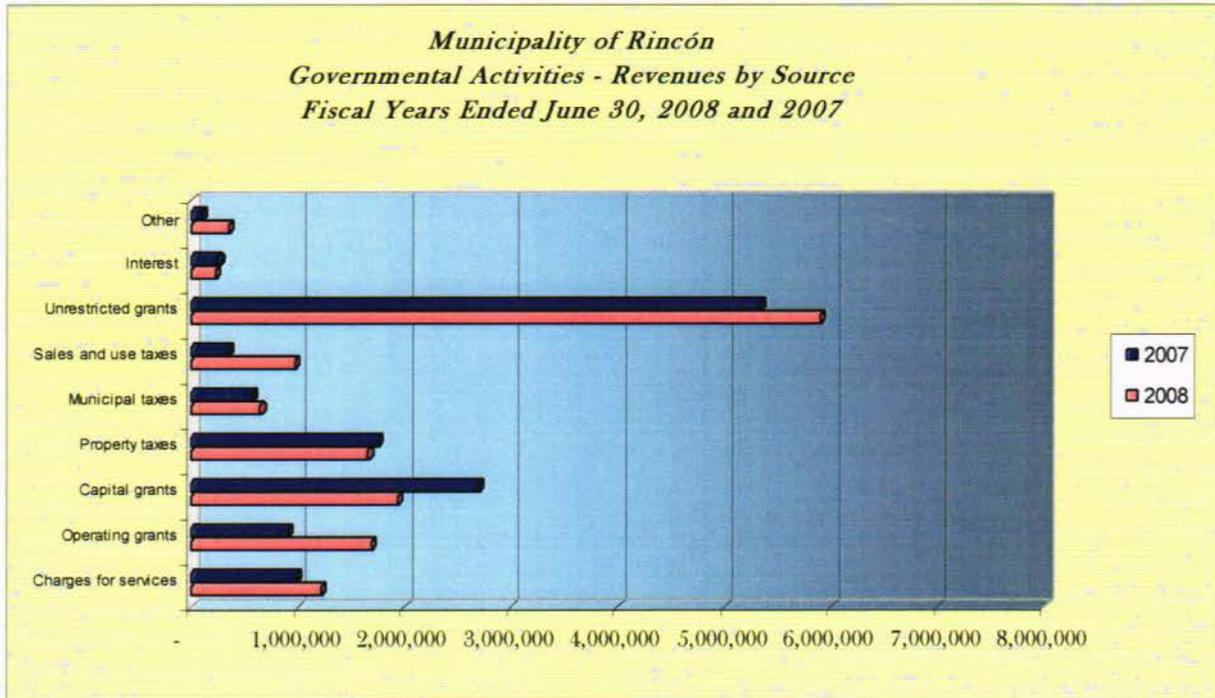
***Summary of Changes in Net Assets
As of June 30,***

	Governmental Activities	
	2008	2007
Program revenues:		
Fees, fines and charges for services	\$ 1,220,056	\$ 999,344
Operating grants and contributions	1,697,765	916,819
Capital grants and contributions	1,940,100	2,700,300
General revenues:		
Property taxes	1,660,361	1,750,453
Municipal license taxes	652,108	578,679
Sales and use taxes	974,485	361,584
Grants and contributions not restricted to specific programs	5,895,537	5,333,753
Interest	237,105	259,398
Other	349,944	112,431
Total revenues	14,627,461	13,012,761
Expenses:		
General government	5,305,598	4,124,297
Public works and sanitation	3,758,317	2,702,592
Public safety	933,742	926,982
Culture and recreation	806,569	551,007
Health	320,367	320,367
Housing, welfare and community development	867,518	818,036
Education	4,558	3,162
Interest on long term debt	283,237	276,625
Total expenses	12,279,906	9,723,068
Change in net assets	2,347,555	3,289,693
Net assets-beginning of year	25,944,957	22,655,264
Net assets-end of year	\$ 28,292,512	\$ 25,944,957

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008

FIGURE 1

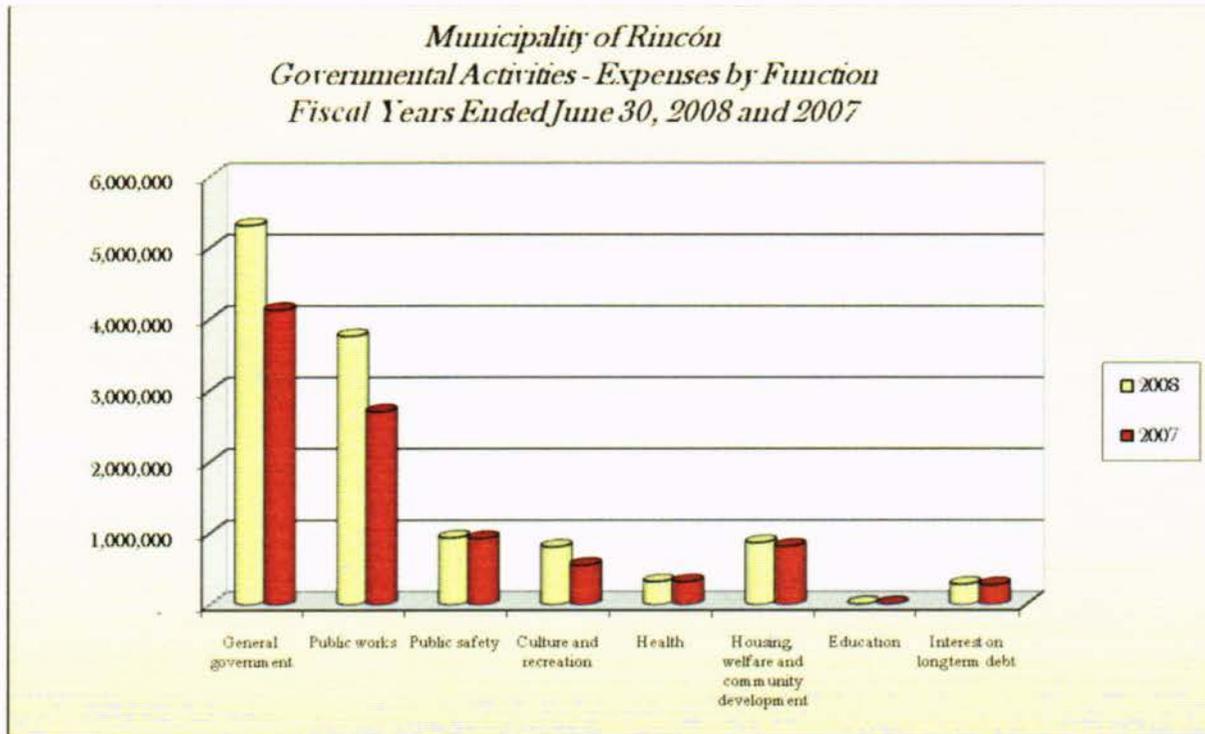


Approximately 40% of the Municipality's revenues came from unrestricted grants, 25% came from operating and capital grants, 10% from property taxes and 8% from fees, fines and charges for services. Revenues increased by 12% in comparison with fiscal year 2007. The most significant change is a 170% increase in sales and use taxes revenues since year ended June 30, 2008 is the first full year collecting this type of tax. There was also a significant increase of 85% in operating grants, due mainly to improvement funds assigned by the Commonwealth Government on fiscal year 2007 but most of which were used during current year. Other significant changes include an increase of 22% in fees, fines and charges for services due to increase in construction permits and an increase of 10% in grants and contributions not restricted for specific programs due mainly to contribution in lieu of tax from the P.R. Electric Power Authority. There was also a significant decrease in capital grants and contributions (28%) due mainly to a significant amount of non recurrent capital improvement funds received in the previous year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

FIGURE 2



The Municipality's expenses cover a range of services. The largest expenses are general government representing approximately 43%, public works and sanitation with 31% and public safety with 8%. Program revenues of the Municipality covered 40% of total expenses.

Total expenses increased 26% in comparison with previous year. This includes an increase in public works and sanitation of 39%, due to the use in current year of improvement funds received in the previous years, and an increase of 29% in general government expenses, mostly influenced by an increase in the Federal minimum wage. There was also an additional increase in the culture and recreation expenses (46%) caused mostly by the creation of the new Art, Culture and Tourism Department financed with the general fund, and the financing of various festivals with special funds of the general fund (funds with self-imposed restrictions).

As noted previously the significant increase in expenses combined with a slight increase in revenues caused the net change in net assets to decrease approximately 29% compared with the net change in net assets reported in the 2007 Statement of Activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

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

TABLE 3

<i>Net Cost of Municipality's Governmental Activities Fiscal years ended June 30,</i>				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
General government	\$ 5,305,598	\$ 4,124,297	\$ (3,586,724)	\$ (2,478,234)
Public works and sanitation	3,758,317	2,702,592	(1,231,444)	(62,512)
Public safety	933,742	926,982	(933,742)	(924,784)
Culture and recreation	806,569	551,007	(761,865)	(526,707)
Housing, welfare and community development	867,518	818,036	(300,048)	(514,214)
Other	608,162	600,154	(608,162)	(600,154)
	<u>\$ 12,279,906</u>	<u>\$ 9,723,068</u>	<u>\$ (7,421,985)</u>	<u>\$ (5,106,605)</u>

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$1,220,056) and other governments and organizations that subsidized certain programs with grants and contributions (\$3,637,865). The \$(7,421,985) net cost of services was fully covered by other general revenues including property, municipal license taxes and sales and use taxes.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2008, the governmental funds reported combined ending fund balances of \$5,318,836, a net decrease of \$1,527,571 in comparison with the prior year. This decrease was caused primarily by the use of funds in the Commonwealth Legislative Resolution Fund of \$1,630,583 and the Permanent Capital Improvements Fund of \$875,463. Of total combined fund balances, \$842,428 or 16% constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

The General Fund is the operating fund of the Municipality. Unreserved Fund Balance of the General Fund represents approximately 16% of total combined ending fund balances. For the year ended June 30, 2008, the fund balance of the General Fund increased by a net change of \$544,371 when compared with the prior year. Of this net change an increase of \$247,291 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 \$467,458 in Commonwealth Government subsidies, an increase of \$345,952 in sales and use taxes, and an increase of \$222,036 in other revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund original budget for the fiscal year 2007-2008 presented an increase of 13% 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 \$938,487 due to additional collections of property taxes, sales and use taxes, Commonwealth subsidies and other revenues. Budget expenditures were increased by \$101,800. Actual revenues exceeded revised budgeted revenues by \$58,363 (net). The most significant variances were \$532,230 in Commonwealth subsidies and \$106,030 in sales and use taxes revenues. The Municipality also reported a net negative variance of \$(109,465) between revised budgeted appropriations and actual expenditures due to increased expenditures in the general government category. Actual revenues were exceeded by actual expenditures by \$51,102.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$28,321,019 (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 17% over the prior year.

TABLE 4

<i>Capital Assets, net As of June 30,</i>		
	Governmental Activities	
	2008	2007
Non-depreciable assets:		
Land	\$ 4,675,543	\$ 3,863,243
Construction in progress	3,354,291	6,296,048
Depreciable assets:		
Land improvements	539,875	6,254
Buildings and buildings improvements	13,646,433	8,863,246
Infrastructure	3,330,264	2,959,518
Vehicles, machinery and equipment	2,774,613	2,158,236
Total	\$ 28,321,019	\$ 24,146,545

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

The Municipality's major capital projects that were still in construction as of June 30, 2008 are as follows:

- Barrero Sanitary Sewer System - \$1,507,625
- Construction of "Plaza de la Amistad" - \$712,868
- Construction of "Ventana al Mar" - \$701,511
- Rio Grande Residential Development - \$218,061
- Improvements to Muñoz Rivera and Parque streets - \$167,826

The Municipality placed in use a total of \$1,168,085 in equipment during the fiscal year 2007-2008, from which \$760,473 was acquired in current year and \$407,612 was acquired in the previous year. It includes \$579,335 in vehicles and heavy equipment. The \$407,612 is composed of furniture and fixtures for the New City Hall.

The Municipality's fiscal year 2008-2009 consolidated capital budget calls for a significant amount of projects including the conclusion and reopening 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 "Plaza de la Amistad" (\$900,000); improvements to the urban infrastructure of the Municipality (\$300,000); improvements to infrastructure in the "Calvache" ward (\$510,527), 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 E to the basic financial statements.

Long-term debt

At year-end, the Municipality had \$4,990,000 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, 2008 and 2007:

TABLE 5

<i>Outstanding Long-term Debt Fiscal years ended June 30,</i>		
	Governmental Activities	
	2008	2007
General, special obligation bonds and notes	\$ 4,990,000	\$ 4,909,000
Note payable to CRIM – Law No. 42	436,126	443,900
Note payable to CRIM – LIMS	72,204	90,255
Note payable to CRIM – financing of delinquent accounts	49,405	51,464
Line of credit – GDB	113,636	578,197
Payable to PREPA	151,385	-
P.R. Department of Treasury - prior years property taxes	11,687	21,703
Compensated absences	1,172,146	1,019,215
Christmas bonus	172,097	173,319
Judgments and legal claims	7,000	24,236
Total	\$ 7,175,686	\$ 7,311,289

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2008**

The Municipality reported a net decrease in the other long-term debts of \$316,603. This decrease was mostly affected by the net effect from the decrease of \$464,561 in the line of credit debt, with an increase of \$151,385 from the new debt with P.R. Electric Power Authority (PREPA). More detailed information about the Municipality's long-term liabilities is presented in Note F to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's officials considered certain factors when setting the fiscal year 2008-2009 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 12.5%, which compares with the Commonwealth rate of 11.8%.

For the fiscal year 2008-2009 the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2008-2009 are \$8,670,000 representing an increase of only 4% with respect to prior year estimates. Budgeted expenditures are expected to rise accordingly to the increase of budgeted revenues. If these estimates are realized, the Municipality's budgetary general fund balance is expected to increase modestly by the close of 2008-2009 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 the next fiscal 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 Rincón, PO Box 97, Rincón, P.R. 00677.

Basic Financial Statements

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 1,666,649
Receivables, net:	
License taxes	338
Due from:	
Commonwealth Government (note C)	2,176,150
Federal Government (note C)	555,625
Restricted assets:	
Cash and cash equivalents	5,266,221
Cash with fiscal agent	1,976,859
Deferred bond issuance costs	24,383
Capital assets (note E):	
Land and construction in progress	8,029,834
Other capital assets, net	20,291,185
Total capital assets, net	<u>28,321,019</u>
Total assets	<u>39,987,244</u>
 LIABILITIES	
Accounts payable and accrued liabilities	\$ 1,966,922
Interest payable	119,938
Due to:	
Commonwealth Government (note C)	144,367
Deferred revenues:	
Municipal license taxes	391,507
Intergovernmental-Commonwealth Government	667,469
Federal grants	1,228,843
Long-term liabilities (note F):	
Due within one year	913,807
Due in more than one year	6,261,879
Total liabilities	<u>11,694,732</u>
 NET ASSETS	
Invested in capital assets, net of related debt	24,774,644
Restricted for:	
Debt service	1,165,165
Capital Projects	2,898,463
Other specified purposes	866,587
Unrestricted (deficit)	(1,412,347)
Total net assets	<u>\$ 28,292,512</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, 2008

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (expense) revenue and changes in net assets</u>
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
General government	\$ 5,305,598	\$ 1,175,352	\$ 445,449	\$ 98,073	\$ (3,586,724)
Public works and sanitation	3,758,317	-	963,287	1,563,586	(1,231,444)
Public safety	933,742	-	-	-	(933,742)
Culture and recreation	806,569	44,704	-	-	(761,865)
Health	320,367	-	-	-	(320,367)
Welfare and community development	867,518	-	289,029	278,441	(300,048)
Education	4,558	-	-	-	(4,558)
Interest on long-term debt	283,237	-	-	-	(283,237)
Total	<u>\$ 12,279,906</u>	<u>\$ 1,220,056</u>	<u>\$ 1,697,765</u>	<u>\$ 1,940,100</u>	<u>(7,421,985)</u>

General revenues :

Taxes:	
Property taxes	1,660,361
Municipal license taxes	652,108
Sales and use taxes	974,485
Grants contributions not restricted to specific programs	5,895,537
Interest	237,105
Other	349,944
Total general revenues:	<u>9,769,540</u>

Change in net assets	2,347,555
Net assets-beginning	25,944,957
Net assets-ending	<u>\$ 28,292,512</u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	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	\$ 1,666,649	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,666,649
Receivables, net:										
License taxes	338	-	-	-	-	-	-	-	-	338
Due from:										
Commonwealth Government	1,107,163	-	94,115	-	-	-	-	220,896	753,976	2,176,150
Federal Government	-	-	-	515,354	-	-	-	-	40,271	555,625
Other funds (note D)	429,451	-	-	-	-	-	-	-	-	429,451
Advances to other funds (note D)	-	694,758	-	-	-	-	-	-	-	694,758
Restricted assets:										
Cash and cash equivalents	17,830	1,487,471	-	17	640,000	1,016,048	1,380,904	-	723,951	5,266,221
Cash with fiscal agent	-	-	1,190,630	-	-	-	-	-	786,229	1,976,859
Total assets	\$ 3,221,431	\$ 2,182,229	\$ 1,284,745	\$ 515,371	\$ 640,000	\$ 1,016,048	\$ 1,380,904	\$ 220,896	\$ 2,304,427	\$ 12,766,051
Liabilities and Fund Balances										
Liabilities:										
Accounts payable and accrued liabilities	\$ 307,506	\$ 199,353	\$ -	\$ 289,075	\$ -	\$ 91,290	\$ 160,002	\$ 101,257	\$ 818,439	\$ 1,966,922
Matured bonds and interest payable	-	-	497,851	-	-	-	-	-	-	497,851
Due to:										
Commonwealth Government	144,367	-	-	-	-	-	-	-	-	144,367
Other funds	-	-	-	226,296	-	-	-	-	203,155	429,451
Advances from other funds	694,758	-	-	-	-	-	-	-	-	694,758
Deferred revenues (notes G and I):										
Municipal License taxes	391,507	-	-	-	-	-	-	-	-	391,507
Intergovernmental-Commonwealth Government	679,532	-	59,908	-	640,000	-	-	220,896	95,972	1,696,308
Federal grants	-	-	-	373,163	-	-	1,220,902	-	31,986	1,626,051
Total liabilities	2,217,670	199,353	557,759	888,534	640,000	91,290	1,380,904	322,153	1,149,552	7,447,215
Fund Balances (deficit):										
Reserved for:										
Encumbrances	91,036	-	-	-	-	-	-	-	-	91,036
Debt Service	-	-	726,986	-	-	-	-	-	-	726,986
Capital projects (note P)	-	1,288,118	-	(373,163)	-	924,758	-	(101,257)	1,070,594	2,809,050
Other specified purposes (note P)	70,297	-	-	-	-	-	-	-	84,281	154,578
Advances	-	694,758	-	-	-	-	-	-	-	694,758
Unreserved										
Designated for subsequent years expenditures	701,264	-	-	-	-	-	-	-	-	701,264
Undesignated	141,164	-	-	-	-	-	-	-	-	141,164
Total fund balances (deficit)	1,003,761	1,982,876	726,986	(373,163)	-	924,758	-	(101,257)	1,154,875	5,318,836
Total liabilities and fund balances	\$ 3,221,431	\$ 2,182,229	\$ 1,284,745	\$ 515,371	\$ 640,000	\$ 1,016,048	\$ 1,380,904	\$ 220,896	\$ 2,304,427	\$ 12,766,051

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008**

Total fund balances- governmental funds \$ 5,318,836

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: 28,321,019

Other assets used in governmental activities are not current financial resources and therefore are not reported in the funds:
Deferred charges - bond issuance costs: 24,383

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

Due from Commonwealth Government:			
Christmas bonus reimbursement	86,049		
Property taxes- General Fund	324,990		
Property taxes- Debt Service Fund	42,502		
Sales and use tax- General Fund	41,106		
Sales and use tax- Debt Service Fund	17,406		
P.R. Department of Education	16,500		
P.R. Department of Labor (Law 52 and Law 82)	59,502		
Line of Credit (Office of Management and Budget)	220,896		
P.R. Electric Power Authority (PREPA)	151,385		
Office of Elderly Affairs (OGAVE)	16,382		
Territorial Plan (OCAM)	52,121		1,028,839
Due from Federal Government:			
Federal grant - CDBG	378,163		
Federal grant-NSIP	10,164		
Federal grant- Title III-B, C1 and C2	6,742		
Federal grant - Title III-E	2,139		397,208

Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds: (20,087)

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	(4,592,000)	
Note payable to CRIM-Law No. 42	(436,126)	
Note payable to CRIM-LIMS	(72,204)	
Note payable to CRIM-financing of delinquent accounts	(49,405)	
Payable to GDB - Line of credit	(113,636)	
Payable to CRIM-excess of property tax advances	(11,686)	
Compensated absences	(1,172,147)	
Christmas Bonus	(172,097)	
Debt payable to P.R. Electric Power Authority	(151,385)	
Judgments and claims	(7,000)	(6,777,686)

Net assets of governmental activities: \$ 28,292,512

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	Major 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 H)	\$ 894,809	\$ -	\$ 622,063	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,516,872
Municipal license taxes (note I)	652,108	-	-	-	-	-	-	-	-	652,108
Sales and use taxes (note J)	707,536	-	208,437	-	-	-	-	-	-	915,973
Intergovernmental:										
Commonwealth Government (note K)	6,205,045	25,177	-	-	-	-	500,000	1,656,652	-	8,386,874
Federal Government	-	-	-	977,987	-	-	160,000	425,824	-	1,563,811
Fees, fines and charges for services	1,258,275	-	-	-	-	-	-	-	-	1,258,275
Interest	188,678	-	20,424	17	-	-	-	27,986	-	237,105
Other	329,782	-	-	-	-	-	-	15,447	-	345,229
Total revenues	10,236,233	25,177	850,924	978,004	-	-	160,000	500,000	2,125,909	14,876,247
Expenditures:										
Current:										
General government	4,889,557	-	14,300	69,732	-	-	37,032	18,387	-	5,029,008
Public works and sanitation	2,362,362	65,214	-	-	-	-	5,850	605,178	-	3,038,604
Public safety	814,805	-	-	-	-	-	-	38,451	-	853,256
Culture and recreation	603,650	-	-	-	-	-	-	1,844	-	605,494
Health	320,367	-	-	-	-	-	-	-	-	320,367
Welfare and community development	302,279	177	-	278,441	-	-	-	403,803	-	984,700
Capital outlays	187,907	1,564,763	-	928,515	-	635,238	-	1,521,107	-	4,837,530
Debt Service:										
Principal	-	-	445,000	-	-	-	-	-	-	445,000
Interest	-	-	245,967	-	-	-	-	-	-	245,967
Bond issuance costs	-	-	-	-	-	-	-	3,639	-	3,639
Total expenditures	9,480,927	1,630,154	705,267	1,276,688	-	635,238	5,850	37,032	2,592,409	16,363,565
Excess (deficiency) of revenues over expenditures	755,306	(1,604,977)	145,657	(298,684)	-	(635,238)	154,150	462,968	(466,500)	(1,487,318)
Other financing sources (uses):										
Proceeds from \$1,200,000 GDB credit line	-	-	-	-	-	-	20,688	-	-	20,688
Proceeds from general obligation bonds	-	-	-	-	-	-	-	500,000	-	500,000
Payment of PREPA debt	(75,692)	-	-	-	-	-	-	-	-	(75,692)
Payment of \$1,200,000 GDB credit line	-	-	-	-	-	-	(485,249)	-	-	(485,249)
Transfers in	93,408	-	182,489	-	-	-	-	271,624	-	547,521
Transfers (out)	(228,651)	(25,606)	(19,562)	-	-	(240,225)	-	(33,477)	-	(547,521)
Total other financing resources (uses)	(210,935)	(25,606)	162,927	-	-	(240,225)	(464,561)	738,147	-	(40,253)
Net change in fund balances	544,371	(1,630,583)	308,584	(298,684)	-	(875,463)	154,150	(1,593)	271,647	(1,527,571)
Fund balances (deficit) at beginning of year	459,390	3,613,459	418,402	(74,479)	-	1,800,221	(154,150)	(99,664)	883,228	6,846,407
Fund balances (deficit) at end of year	\$ 1,003,761	\$ 1,982,876	\$ 726,986	\$ (373,163)	\$ -	\$ 924,758	\$ -	\$ (101,257)	\$ 1,154,875	\$ 5,318,836

The accompanying notes are an integral part of this statement.

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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, 2008**

Net change in fund balances - total governmental funds: \$ (1,527,571)

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

Governmental funds report capital assets outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for capital assets	\$ 4,837,530	
Less: current year depreciation	<u>(1,045,851)</u>	3,791,679

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	3,639	
Amortization of bond issuance costs	<u>(3,270)</u>	369

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

Christmas bonus reimbursement	86,049	
Property Taxes-General Fund	324,990	
Property Taxes-Debt Service Fund	42,502	
Sales and use tax-General Fund	41,106	
Sales and use tax-Debt Service Fund	17,406	
P.R. Department of Education	16,500	
Office of Elderly Affairs (OGAVE)	2,678	
Line of Credit (Office of Management and Budget)	22,281	
P.R. Department of Labor (Law No. 52 & Law No. 82)	59,502	
Federal Grant - Title III-E (OGAVE)	2,139	
Federal Grant- Title III-B, C1 and C2	6,742	
Federal Grants- NSIP	10,164	
Federal Grant - CDBG	<u>367,430</u>	999,489

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

Christmas bonus reimbursement-prior year	(86,659)	
Property Taxes-General Fund	(154,354)	
Property Taxes-Debt Service Fund	(69,649)	
P.R. Department of Labor (Law No. 52 and Law No. 82)	(56,417)	
Line of Credit (Office of Management and Budget) (prior year)	(485,249)	
P.R. Electric Power Authority (PREPA)	151,385	
Public Order Code	(39,850)	
Rural Development Corporation (CDR)	(30,078)	
Federal Grants - CDBG	(63,746)	
Federal Grants - Child Care	(65,641)	
Federal Grant-Rural Development	<u>(154,150)</u>	(1,054,408)

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

(520,688)

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

(24,817)

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

Matured bonds principal payments (net change)		26,000
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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	419,000	
Other long-term liabilities	<u>863,304</u>	1,282,304

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	(219,839)	
Christmas bonus	(172,097)	
Debt payment to P.R. Electric Power Authority	(227,077)	
Judgment and Claims	(7,000)	
Accrued interest (net change)	<u>1,211</u>	(624,802)

Change in net assets of governmental activities: \$ 2,347,555

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Municipality of Rincón (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 unit's 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, 2008

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.

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

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

Management's 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

The 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, 2008**

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, 2008

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 (for Rural Development Corporation - Marine Facilities, Permanent Capital Improvements and \$1,200,000 GDB Line of Credit 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 revenue sources for the development of viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Permanent Capital Improvements Fund: The Permanent Capital Improvements Fund is used to account for the monies 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" and the construction of a batting camp facility.

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

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 at 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, 2008**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Municipality reports in the governmental fund statements deferred revenues 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) and (2) vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long-term portions of debt must be included).

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a 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.

3. *Cash, cash equivalents (unrestricted and restricted) and restricted cash with fiscal agent*

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. 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 deposit. Cash and cash equivalents related to Commonwealth Legislature Resolutions are restricted since their use is limited as required by law.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

4. *Receivables and due from governmental entities*

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

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

5. *Interfund receivables and payables*

Activity among the 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 among the funds are reported as "due from/to other funds".

6. *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.

7. *Capital assets*

Capital assets of the primary government, which include property, plant, equipment and infrastructure, (i.e., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column 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 and construction in progress, 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, 2008

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.

8. 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, consist of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

9. 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.

10. Compensated absences

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

The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more of 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, 2008**

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.

11. Fund balances and Net Assets

a. Fund balances:

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:	Represent 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.

Fund balance unreserved-designated represents amounts that Management has identified for future spending and not legally segregated.

b. Net assets:

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

Invested in capital assets, Consist of capital asset balances net of accumulated depreciation and net of related debt: 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.

**COMMONWEALTH OF PUERTO RICO
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**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Restricted net assets: Represent net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- Unrestricted net assets: Represent net assets that do not meet the definition of net assets Invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

12. 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.

13. 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 Rincón consists of professional, public responsibility, property and theft, auto and fidelity bond coverage.

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

14. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

15. Future adoption of accounting pronouncements

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

<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
45 Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions	June 30, 2009
49 Accounting and Financial Reporting for Pollution Remediation Obligations	June 30, 2009
51 Accounting and Financial Reporting for Intangible Assets	June 30, 2010
52 Land and Other Real Estate Held as Investments by Endowments	June 30, 2009
53 Accounting and Financial Reporting for Derivative Instruments	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 amounts to \$7,007,082.

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 \$1,827,019.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE C- DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2008 follows:

	Commonwealth Government	Federal Government
P. R. Department of Education	\$ 65,000	\$ -
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	52,005	-
Municipal Revenue Collection Center (CRIM)- property taxes and intergovernmental subsidy(general fund)	493,492	-
P.R. Department of Treasury – Christmas Bonus Reimbursement	86,049	-
P.R. Department of Transportation	562,029	-
P.R. Department of Labor – Law No.52	174,963	-
P.R. Department of Labor – Law No.82	34,539	-
Office of Elderly Affairs	6,339	-
\$1,200,000 Line of credit (Office of Management and Budget)	220,896	-
P.R. Electric Power Authority (PREPA)	151,385	-
Infrastructure Financing Authority	133,487	-
P.R. Department of Treasury – sales and use taxes- 1% and Municipal Development fund (general fund)	101,735	-
P.R. Department of Treasury – sales and use taxes- Municipal Redemption fund (debt service fund)	42,110	-
Office of Commissioner of Municipal Affairs – Territorial Plan	52,121	-
Office of Commissioner of Municipal Affairs – CDBG	-	515,354
Office of Elderly Affairs – Title III-B and III-E	-	9,767
Office of Elderly Affairs – Title III-C1,C2 and III- E	-	10,060
Nutrition Service Incentive Program	-	10,164
P.R. Department of Family – Child Care	-	8,635
US Department of Housing and Urban Development – Section 8 (HCV)	-	1,645
	\$ 2,176,150	\$ 555,625

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 G.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

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

2. Amounts due to governmental entities as of June 30, 2008 follows:

	Commonwealth Government
P.R. Governor's Office – FEMA	\$ 117,957
P.R. Employees Retirement System (special laws)	10,444
P.R. Aqueduct and Sewer Authority (PRASA)	8,441
Others	7,525
	\$ 144,367

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	\$ 226,296
	Other Governmental Funds:	
	Child Care	8,713
	Office of Elderly Affairs	29,212
	Office of Elderly Affairs – Title III- B and III-E	22,284
	\$1,660,000 Bond Issuance	90,000
	Territorial Plan	52,121
	Other	825
Total:		\$ 429,451

2. Advances to other funds

Advances to other funds includes \$694,758 advances by the Commonwealth Legislative Grants Fund 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 in (out):

Transfers among individual funds were made for operational purposes. Transfers include (1) interest earned on restricted cash with fiscal agent in the debt service fund and operating and capital improvement loans in other governmental funds which are transferred to the general fund (2) interest in Commonwealth Legislature Resolutions funds which is transferred to the general fund and, (3) principal and interest payments of long-term debt transferred from the general fund to the debt service fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE E- CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2008 are as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 3,863,243	\$ 812,300	\$ -	\$ 4,675,543
Construction in progress	6,296,048	2,671,712	5,613,469	3,354,291
Total capital assets not being depreciated	10,159,291	3,484,012	5,613,469	8,029,834
Capital assets, being depreciated:				
Land improvements	6,799	543,918	-	550,717
Buildings and building improvements	11,995,162	5,071,922	-	17,067,084
Infrastructure	6,019,220	590,674	4,740	6,605,154
Vehicles, machinery and Equipment	5,927,622	1,168,085	102,343	6,993,364
Total capital assets being depreciated	23,948,803	7,374,599	107,083	31,216,319
Less accumulated depreciation for:				
Land improvements	545	10,297	-	10,842
Buildings and building improvements	3,131,916	288,735	-	3,420,651
Infrastructure	3,059,702	215,472	284	3,274,890
Vehicles, machinery and equipment	3,769,386	531,347	81,982	4,218,751
Total accumulated depreciation	9,961,549	1,045,851	82,266	10,925,134
Total capital assets being depreciated, net	13,987,254	6,328,748	24,817	20,291,185
Governmental activities capital assets, net	<u>\$ 24,146,545</u>	<u>\$ 9,812,760</u>	<u>\$ 5,638,286</u>	<u>\$ 28,321,019</u>

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

Governmental activities:

General government	\$ 187,397
Public works and sanitation	593,454
Public safety	33,880
Culture and recreation	200,769
Welfare and community development	29,817
Education	534
Total depreciation expense, governmental activities	<u>\$ 1,045,851</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE E- CAPITAL ASSETS-Continued

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

NOTE F- LONG-TERM DEBT

1. Summary of long-term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2008:

	Balance at July 1, 2007	Increases	Decreases	Balance at June 30, 2008	Due within one year
General, Special Obligation Bonds and Notes	\$ 4,909,000	\$ 500,000	\$ 419,000	\$ 4,990,000	\$ 446,000
Note payable to CRIM-Law No. 42	443,900	-	7,774	436,126	8,262
Note payable to CRIM-LIMS	90,255	-	18,051	72,204	19,141
Note payable to CRIM-financing of delinquent accounts	51,464	-	2,059	49,405	2,059
Line of credit - GDB	578,197	20,688	485,249	113,636	113,636
Payable to Puerto Rico Treasury Department - prior years property taxes	21,703	-	10,016	11,687	10,016
Compensated absences	1,019,215	219,839	66,908	1,172,146	59,904
Christmas Bonus	173,319	172,097	173,319	172,097	172,097
Payable to PREPA	-	227,077	75,692	151,385	75,692
Judgments and legal claims	24,236	7,000	24,236	7,000	7,000
	<u>\$ 7,311,289</u>	<u>\$ 1,146,701</u>	<u>\$ 1,282,304</u>	<u>\$ 7,175,686</u>	<u>\$ 913,807</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE F- LONG-TERM DEBT - Continued

2. General and special obligation bonds and notes

The Municipality's outstanding general, special obligation bonds and notes at June 30, 2008 amount to \$4,990,000. 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 collect property taxes for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by law. Debt Service Fund has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of certain long-term debt issued for operational purposes (special obligation bonds of \$635,000 and \$910,000) are made through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM).

A detail of the general, special obligation bonds and notes as of June 30, 2008 follows:

	Outstanding Amount
1994 public improvement bonds of \$721,000 due in annual installments of \$17,000 to \$52,000 through January 1, 2017; bearing interest at 5.0%	\$ 382,000
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% (6.23% at June 30, 2008)	345,000
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 3.83% to 6.50% (6.48% at June 30, 2008)	580,000
2002 general obligation bonds of \$1,660,000 due in annual installments of \$25,000 to \$130,000 through July 1, 2026; bearing interest at rates ranging from 2.7% to 5.6% (3.88% at June 30, 2008)	1,465,000
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%	479,000
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 4.17% to 4.38% (4.24% at June 30, 2008)	130,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE F- 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 3.93% to 7.00% (6.48% at June 30, 2008)	\$ 144,000
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 4.17% to 4.73% (4.24% at June 30, 2008)	485,000
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 3.93% to 7.50% (6.48% at June 30, 2008)	480,000
2008 general obligation bonds of \$500,000 due in annual installments of \$5,000 to \$40,000 through July 1, 2032; bearing interest at rates ranging from 3.93% to 7.25% (3.93% at June 30, 2008)	500,000
	\$ 4,990,000

The debt services requirement to amortize general and special obligation bonds and notes as of June 30, 2008 follows:

June 30,	Principal	Interest
2009	\$ 446,000	\$ 243,374
2010	480,000	234,586
2011	437,000	207,613
2012	336,000	189,200
2013	370,000	168,669
2014-2018	930,000	673,407
2019-2023	810,000	455,930
2024-2028	966,000	185,459
2029-2033	215,000	35,179
Totals	\$ 4,990,000	\$ 2,393,417

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE F- 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 owed to CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Amounts are retained from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the CRIM. Law No.42 was amended by Law no. 146 to extend from 10 to 30 years the financing period and by Law No. 172 to extend the debt period to June 30, 2001. On November 26, 2002 the Municipality entered into the financing agreement with the CRIM for a total amount of \$476,395, bearing interest at 6.18% and due on July 1, 2032. Debt service requirements in future years are as follows:

\$ 436,126

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 8,262	\$ 27,310
2010	8,781	26,340
2011	9,333	25,889
2012	9,919	25,103
2013	10,543	24,579
2014-2018	63,522	111,248
2019-2023	86,148	89,392
2024-2028	116,834	58,774
2029-2032	122,784	17,832
Totals	<u>\$ 436,126</u>	<u>\$ 406,467</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE F- 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 repaid with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the CRIM. Debt service requirements in future years are as follows:

\$ 72,204

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 19,141	\$ 3,921
2010	20,297	2,759
2011	21,522	1,527
2012	11,244	279
Totals	<u>\$ 72,204</u>	<u>\$ 8,486</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE F- LONG-TERM DEBT - Continued

**Outstanding
Amount**

Note payable to CRIM (Financing of delinquent accounts)– On March 27, 2002 the Municipality entered into a financing agreement with the CRIM in the amount of \$165,479 to finance delinquent property tax accounts sold to private investors, under the provisions 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. The amount is repaid with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). Debt service requirements in future years are as follows:

\$ 49,405

<u>June 30,</u>	<u>Principal</u>		<u>Interest</u>	
2009	\$	2,059	\$	3,073
2010		2,059		2,945
2011		2,059		2,819
2012		2,059		2,689
2013		2,059		2,560
2014-2018		10,292		10,884
2019-2023		10,292		7,683
2024-2028		10,292		4,482
2029-2032		8,234		1,280
Totals	\$	<u>49,405</u>	\$	<u>38,415</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE F- LONG-TERM DEBT - Continued

	<u>Outstanding Amount</u>
<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-3.93% at June 30, 2008) and are payable upon maturity of the line of credit agreement in June 30, 2008 (see related note O). 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 2007-2008. Refer to Note O (3).</p>	\$ 113,636
<p>Payable to Puerto Rico Treasury Department, prior years property taxes - represents 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 sent to the CRIM.</p>	11,687
<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>	1,172,146
<p>Christmas Bonus - represents the accrued portion corresponding to fiscal year 2007-2008 of the Christmas bonus to be paid in December 2008.</p>	172,097
<p>Claims and judgments - represents the final costs of a legal case paid subsequent to June 30, 2008. The awarded amount will be paid with unrestricted funds.</p>	7,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE F- LONG-TERM DEBT - Continued

**Outstanding
Amount**

Payable to PREPA - As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority ("PREPA") should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax ("CELI") based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For fiscal year 2006-2007 the Municipality's annual energy charges amounted to \$1,058,112 but the CELI obligation determined by PREPA amounted to \$831,035. As communicated by PREPA the excess amount of \$227,077 was recorded as a payable to the Municipality and will be amortized over a 3-year period against the corresponding receivable for the same amount. As of June 30, 2008 the outstanding amount of \$151,385 is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:

\$ 151,385

June 30	Principal
2009	\$ 75,692
2010	75,693
Totals	\$ 151,385

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE G - DEFERRED REVENUES – GOVERNMENTAL FUNDS

Deferred revenues - Commonwealth Government represent revenues not available as required by current standards and for Federal Grants represent resources received before allowable expenditures are incurred or not available as required by current standards. A detail of these balances follows:

	Commonwealth Government	Federal Government
<u>Major fund - general fund:</u>		
Municipal Revenue Collection Center (CRIM)- property taxes (general fund)	\$ 324,990	\$ -
Puerto Rico Department of Treasury – Christmas Bonus Reimbursement	86,049	-
Municipal Revenue Collection Center (CRIM)- sales and use taxes, Municipal Development Fund (general fund)	41,106	-
P.R. Department of Education	16,500	-
P.R. Department of Labor – Law No.52	24,963	-
P.R. Department of Labor – Law No.82	34,539	-
P.R. Electric Power Authority (PREPA)	151,385	-
<u>Major fund – debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	42,502	-
Municipal Revenue Collection Center (CRIM) – sales and use taxes, Municipal Redemption Fund (debt service fund)	17,406	-
<u>Major fund – Community Development Block Grant fund:</u>		
Office of Commissioner of Municipal Affairs -CDBG	-	373,163
<u>Major fund – Rural Development Corporation Marine Facilities</u>		
Rural Development Corporation – cash advances	640,000	-
<u>Major fund – Barrero Sanitary Sewer System</u>		
Rural Development – cash advances	-	1,220,902
<u>Major fund – \$1,200,000 Line of Credit</u>		
Governmental Development Bank of P.R.	220,896	-
<u>Other governmental funds</u>		
P.R. Police Department – Public Order Code	27,469	-
Office of Elderly Affairs	16,382	-
Office of Commissioner of Municipal Affairs – Territorial Plan	52,121	-
Office of Elderly Affairs – Title III-C1,C2 and III-E		6,742
Nutrition Service Incentive Program		10,164
Office of Elderly Affairs – Title III-B and III-E	-	2,139
P.R. Department of Family – Child Care	-	12,941
	\$ 1,696,308	\$ 1,626,051

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE H – 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 generally 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, 2008 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	<u>7.03%</u>	<u>9.03%</u>
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 \$324,990 resulting from the final settlement for the fiscal year 2007-2008 is recorded in the governmental funds as deferred revenues since the amount is not available as required by current standards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE I – 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, 2008, 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 \$391,507 are recorded as deferred revenues.

NOTE J – 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.

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which amends Act No. 117 of July 4, 2006 to impose 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% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE J – SALES AND USE TAXES - Continued

The amount collected by the PRDT, (the remaining .5% of the 1.5%) is 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.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. Tax is due each 20th day of each month based on tax collected in the preceding month. A total \$19,635 sales and use tax receivable from PRDT represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality by the PRDT on or before July 20, net of uncollectible accounts (1%); \$82,100 and \$42,110 represent amounts of “Municipal Development Fund” and “Municipal Redemption Fund” respectively collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30. The amount of \$17,406 (related to Municipal Redemption Fund) is recorded as deferred revenue since it is not available as required by current standards.

NOTE K – INTERGOVERNMENTAL REVENUES

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

	Amount
Amount of municipal equalization fund and subsidy sent by CRIM	\$ 4,198,979
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,367,088
Reimbursement from Commonwealth Government - Christmas Bonus reimbursement	145,146
Puerto Rico Department of Labor – Law No.52	325,000
Puerto Rico Department of Labor – Law No.82	54,358
Puerto Rico Department of Transportation	101,000
Other intergovernmental revenues	13,474
	\$ 6,205,045

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE L – 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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE L – RETIREMENT PLAN – Continued

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>
2008	\$ 99,155	\$ 92,912
2007	\$ 95,301	\$ 83,828
2006	\$ 103,093	\$ 82,876

NOTE M – POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note L, 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. For the fiscal year ended, costs related to these postemployment benefits amounted to \$10,444. These benefits are recorded as expenditures in the general fund.

NOTE N – COMMITMENTS

1. Operating leases

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted approximately \$29,613. 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, 2008 the Municipality has commitments of \$2,905,582 for the design, construction, improvements or renovation of certain municipal facilities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE O – 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 be performed.

2. *Litigations*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that would not be covered by insurance. As a result of one settled case as of June 30, 2008 and not to be covered by insurance, the Municipality accrued \$7,000 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 F, 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 reimbursed to GDB these costs plus interest expense. The line of credit outstanding balance at year-end represents amounts paid by GDB but not reimbursed by PROMB.

The line of credit agreement expired on June 30, 2008. As of June 30, 2008 the project is almost complete and the only remaining costs to be paid are the related 10% retention. Incurred 10% retention costs of \$101,257 not paid to contractors by GDB at June 30, 2008 were paid by GDB subsequent to June 30, 2008 and added to the line of credit principal. The final outcome of this matter is undeterminable.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE P – FUND BALANCE DEFICITS

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

Funds	Amount
Major Funds:	
Community Development Block Grant Program	\$ 373,163
\$1,200,000 GDB Line of Credit	\$ 101,257
Other Governmental Funds:	
Territorial Plan	\$ 52,121
Elderly Affairs Title III-B	\$ 10,164
National Services Incentive Program	\$ 14,656

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

NOTE Q – SUBSEQUENT EVENTS

1. On July 9, 2008 the Governmental Development Bank of Puerto Rico (GDB) approved the issuance of a 15- year \$455,000 general obligation bond (GOB) to finance the construction and improvements of certain capital assets. The GOB, which will be repaid from the Municipal Sinking Fund (“CAE”) will bear interest at variable rates (LIBOR + 1.25%).
2. On August 12, 2008 the Governmental Development Bank of Puerto Rico (GDB) approved the issuance of a 16-year \$1,428,000 special obligation note to finance the construction and improvements of certain capital assets. The note, which will be repaid from the Municipal Redemption Fund will bear interest at variable rates (LIBOR + 1.25%).
3. On August 13, 2008 the Municipality issued a \$705,000 2008 special obligation note to finance the construction and maintenance of certain infrastructure projects. The note, which will be repaid from the Municipal Redemption Fund will bear interest at variable rate (LIBOR + 1.25%).

Required Supplementary Information

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Taxes:				
Property taxes	\$ 1,566,997	\$ 1,737,470	\$ 1,425,211	\$ (312,259)
Municipal license taxes	465,000	632,800	652,108	19,308
Sales and use taxes	425,000	575,000	681,030	106,030
Intergovernmental	4,632,396	4,404,387	4,936,617	532,230
Fees, fines and charges for services	1,019,600	1,425,587	1,129,275	(296,312)
Interest	160,000	229,700	233,627	3,927
Other	31,007	233,543	238,982	5,439
Total revenues	<u>8,300,000</u>	<u>9,238,487</u>	<u>9,296,850</u>	<u>58,363</u>
<u>EXPENDITURES:</u>				
Current:				
General government	3,764,702	3,991,975	4,140,891	(148,916)
Public works and sanitation	2,241,084	2,199,796	2,181,467	18,329
Public safety	891,846	814,971	807,729	7,242
Culture and recreation	604,250	575,124	569,157	5,967
Health	320,368	320,368	320,367	1
Welfare and community development	288,375	310,191	302,279	7,912
Total expenditures	<u>8,110,625</u>	<u>8,212,425</u>	<u>8,321,890</u>	<u>(109,465)</u>
Excess of revenues over expenditures	189,375	1,026,062	974,960	(51,102)
<u>Other financing sources (uses):</u>				
Transfers out	(189,375)	(1,026,062)	(1,026,062)	-
Total other financing sources (uses)	<u>(189,375)</u>	<u>(1,026,062)</u>	<u>(1,026,062)</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses (expenditures and other financing uses over revenues and other financing sources)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (51,102)</u>	<u>\$ (51,102)</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, 2008**

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 fund 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, 2008

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of expenditures and other financing uses over revenues and other financing sources (budgetary basis):	\$ (51,102)
Budget to GAAP differences:	
Entity differences:	
Non budgeted funds recorded as revenues for financial reporting purposes:	615,213
Non budgeted funds recorded as expenditures for financial reporting:	(1,234,413)
Non budgeted transfers in:	894,871
Non budgeted transfers out:	(28,380)
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis:	498,001
Revenues recorded in budgetary basis purposes but not in financial reporting:	(82,169)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	196,631
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(243,918)
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	65,420
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(85,783)
Net change in fund balance (GAAP basis):	<u>\$ 544,371</u>

Supplementary Information

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON

SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Line Item No.	Description	Housing Choice Vouchers 14,871 (Unaudited)
Balance Sheet		
111	Cash - unrestricted	\$ 610
113	Cash - other restricted	24,280
100	Total cash	24,890
122	Accounts receivable - HUD other projects	1,645
120	Total receivables, net of allowance for doubtful accounts	1,645
150	Total Current Assets	26,535
164	Furniture, equipment and machinery - administration	2,009
166	Accumulated depreciation	(1,656)
160	Total capital assets, net of accumulated depreciation	353
180	Total Non-current Assets	353
190	Total Assets	\$ 26,888
312	Accounts payable <= 90 days	\$ 253
322	Accrued compensated absences - current portion	542
347	Inter-program - due to	1,385
310	Total Current Liabilities	2,180
350	Total Non-current Liabilities	-
300	Total Liabilities	2,180
508.1	Invested in Capital Assets, Net of Related Debt	353
511.1	Restricted Net Assets	25,286
512.1	Unrestricted Net Assets	(931)
513	Total Equity/Net Assets	24,708
600	Total Liabilities and Equity/Net Assets	\$ 26,888
Income Statement		
70600-010	Housing assistance payments	\$ 118,477
70600-020	Ongoing administrative fees earned	18,393
70600	HUD PHA operating grants	136,870
71500	Other revenue	1,707
700	Total Revenue	138,577
91100	Administrative salaries	13,236
91500	Employee benefit contributions- administrative	4,832
91600	Office expenses	319
91000	Total Operating - Administrative	18,387
96210	Compensated absences	170
96000	Total Other General Expenses	170
96900	Total Operating Expenses	18,557
97000	Excess Revenue Over Operating Expenses	120,020
97300-050	All Other	99,250
97300	Housing assistance payments	99,250
97350	HAP Portability-in	1,240
97400	Depreciation expense	80
900	Total Expenses	119,127
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ 19,450

The accompanying note is an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON

SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
STATEMENT OF REVENUES AND EXPENSES INFORMATION
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Line Item No.	Description	Housing Choice Vouchers 14.871 <u>(Unaudited)</u>
11030	Beginning equity	\$ 5,258
11770-001	Administrative Fee Equity - Beginning Balance	(801)
11170-010	Administrative Fee Revenue	18,393
11170-050	Other Revenue	1,707
		<p>This amount corresponds to the administrative fees earned on the portability-in vouchers administered by the Municipality (\$467) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 07-08 (\$1,240)</p>
11170-051	Comment For Other Revenue	
11170-060	Total Admin Fee Revenues	20,100
11170-080	Total Operating Expenses	18,557
11170-090	Depreciation	80
11170-095	Housing Assistance Portability In	1,240
11170-110	Total Expenses	19,877
11170-002	Net Administrative Fee	223
11170-003	Administrative Fee Equity - Ending Balance	(578)
11170	Administrative Fee Equity	\$ (578)
11180-001	Housing Assistance Payments Equity - Beginning Balance	6,059
11180-010	Housing Assistance Payments Revenues	118,477
11180-030	Total HAP Revenues	118,477
11180-080	Housing Assistance Payments	99,250
11180-100	Total Housing Assistance Payments Expenses	99,250
11180-002	Net Housing Assistance Payments	19,227
11180-003	Housing Assistance Payments Equity - Ending Balance	25,286
11180	Housing Assistance Payments Equity	\$ 25,286
11190-210	Total ACC HCV Units	408
11190	Unit Months Available	408
11210	Unit Months Leased	364

The accompanying note is an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**NOTE TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
June 30, 2008**

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, 2008

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	\$ 16,037
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	5,850
Subtotal U.S. Department of Agriculture			<u>21,887</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Office of Commissioner of Municipal Affairs (OCAM): Community Development Block Grants - State's Program	14.228	AB - 53 FD - 53	1,276,688
Section 8 Housing Choice Vouchers	14.871	N/A	117,637
Subtotal U.S. Department of Housing and Urban Development			<u>1,394,325</u>
<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	38,841
Special Programs for the Aging_Title III Part C - Nutrition Services	93.045	N/AV	47,758
National Family Caregiver Support, Title III, Part E	93.052	N/AV	43,924
Nutrition Services Incentive Program	93.053	080065R2	15,059
Passed through the P.R. Department of Family - Families and Children Administration: Child Care and Development Block Grant	93.575	2007-000047	100,916
Subtotal U.S. Department of Health and Human Services			<u>246,498</u>
<u>U.S. Department of Homeland Security</u>			
Passed through the Puerto Rico Governor Office - (Office of Public Safety Affairs): Homeland Security Grant Program	97.067	2005-GE-T5-4009 WE-05-13	38,000
Total Expenditures of Federal Awards			<u>\$ 1,700,710</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, 2008**

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

<u>Description</u>	<u>Community Development Block Grant Program</u>	<u>Other Governmental Funds</u>
10.558	\$ -	\$ 16,037
10.760	-	5,850
14.228	1,276,688	-
14.871	-	117,637
93.044	-	38,841
93.045	-	47,758
93.052	-	43,924
93.053	-	15,059
93.575	-	100,916
97.067	-	38,000
Total federal awards expenditures	1,276,688	424,022
Total non-federal awards expenditures	-	2,168,387
Total expenditures, fund statements	<u>\$ 1,276,688</u>	<u>\$ 2,592,409</u>

VALDES, GARCIA, MARIN & MARTINEZ, LLP

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

P.O. Box 364831
SAN JUAN, P.R. 00936-4831

TELEPHONE: (787) 725-1600
TELEFAX: (787) 721-2795

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

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Rincón
Rincón, 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 Rincón (the Municipality) as of and for the year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated December 31, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Municipality's management, the Honorable Mayor and Members of the Municipal Legislature, the Commonwealth of Puerto Rico 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.

Valdes, Garcia, Merin & Martinez, LLP

San Juan, Puerto Rico
December 31, 2008

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affixed to the original.



Hon. Carlos D. López Bonilla
Alcalde

Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Rincón
Apartado 97
Rincón, P.R. 00677

Departamento de Finanzas

Teléfono. (787) 823-2180
Fax (787) 823-7899

March 11, 2009

Oficina del Comisionado de
Asuntos Municipales
Atn: Omar Negrón Judice MBA
Comisionado
PO Box 70167
San Juan, PR 00936-8167

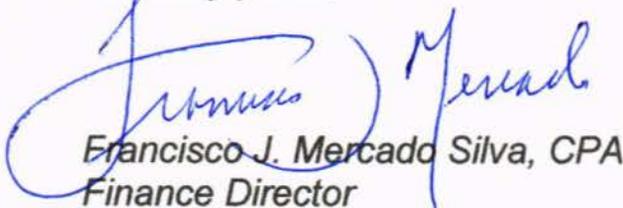
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UNIDAD DE CORREO
Carlos, 910

Gentlemen:

Accompanied herewith please find (1) copy of our Financial Statements and Report of Independent Certified Public Accountants and additional reports required under the OMB Circular A-133. Thereon of the Municipal of Rincón for the year ended June 30, 2008.

Should you have any question regarding to the above mentioned, please let us know.

Cordially yours,


Francisco J. Mercado Silva, CPA
Finance Director

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DIVISION DE ASISTENCIA
E INTERVENCIÓN

VALDES, GARCIA, MARIN & MARTINEZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Municipality of Rincón (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, 2008. The Municipality's major federal programs are identified in the summary of auditors' 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 of the Municipality's compliance with those requirements.

In our opinion, the Municipality of Rincón complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Municipality's management, the Honorable Mayor and Members of the Municipal Legislature, the Commonwealth of Puerto Rico 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.

Valdés, García, Marín & Martínez, LLP

San Juan, Puerto Rico
December 31, 2008

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditors' Results

FISCAL YEAR ENDED JUNE 30, 2008

A. Summary of auditors' results:

Part I - Financial Statements

1. Type of auditors' report issued: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion

Internal control over financial reporting:

2. Significant deficiencies identified? Yes No

3. Significant deficiencies reported as material weaknesses? Yes None reported

4. Financial statements material noncompliance noted? Yes No

Part II - Federal Awards

Internal control over major programs:

1. Significant deficiencies identified? Yes No

2. Significant deficiencies reported as material weaknesses? Yes None reported

3. Type of auditors' report issued on compliance of major programs: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion

4. Any audit findings required to be reported under Section 510(a) of Circular A-133? Yes No

5. Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grants-State Program

6. Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

7. Auditee qualified as low-risk auditee? Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2008

Section II - Financial Statements Findings

Finding	No matters reported.
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2008

Section III - Federal Awards Findings and Questioned Costs

Finding No matters reported.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Finding Number	Program	Noncompliance	Condition	Questioned Costs	Status and Corrective Action Plan
2005 III-1	USDA – Rural Development: Water and Waste Disposal System for Rural Communities (CFDA No. 10.760).	Davis-Bacon Act	The Municipality has not performed the contractor's payroll review.	None	<p>Audit report and related finding have not been cleared by the pass-through entity, Office of the Commissioner of Municipal Affairs (OCAM). In accordance the OMB A-133 Section 315 (b), we believe that the audit finding is no longer valid or do not warrant further action since:</p> <p>(i) Two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse;</p> <p>(ii) The Federal agency and/or pass-through entity are not currently following up with us on the audit finding; and</p> <p>(iii) A management decision was not issued because this finding is not applicable to this federal program.</p>
2001-II-2	State Grants – Budget Area	Use of restricted resources for other purposes.	The Municipality received from the Commonwealth's Legislature certain grant funds which are restricted for specific purposes. Certain general fund expenditures have been financed with these restricted funds, which is not in accordance with grantor's established purposes.	None	Audit report and related finding have not been cleared by the pass-through entity and/or OCAM.