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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

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

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**



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DIVISION REGULATORIA
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Mr. Carlos López-Bonilla

Mr. Francisco Mercado-Silva, CPA

Mayor

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 Rincon
Rincon, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Rincon (the Municipality), as of and for the year ended June 30, 2010, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial 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, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2010, 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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Schedule – General Fund on pages 3 through 13 and 50 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards on page 56 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 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The Financial Data Schedule supplementary information on pages 53 through 55 is required by the Uniform Reporting Standards of the Department of Housing and Urban Development. The Schedule of Expenditures of Federal Awards and the Financial Data Schedule supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Valdez, Garcia, Marin & Martiny, LLP

San Juan, Puerto Rico
January 20, 2011

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to the original.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

We present an analysis of the financial performance of the Municipality of Rincon in order to provide readers with an overview of the Municipality's financial activities for the fiscal year ended June 30, 2010. To obtain a better understanding of the financial position and the results of operations of the Municipality it should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

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

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2010 by \$32,503,631 (net assets).
- Revenues increased by 19% while expenses decreased 2% when compared with fiscal year 2009.
- Net change in net assets amounted to \$3,396,656, an increase of 317% with respect to the prior year net change.

Highlights for Fund Financial Statements

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

- A net change (decrease) in the fund balances of the Municipality's governmental funds for the amount of \$704,196 in the fiscal year 2010 resulted in reported ending fund balances of \$5,849,621. Approximately 17% of the total fund balances is unreserved.
- For the fiscal year 2010, the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$508,868 and an unreserved fund balance of \$1,202,982. In the prior year there was an unreserved fund balance of \$702,658.

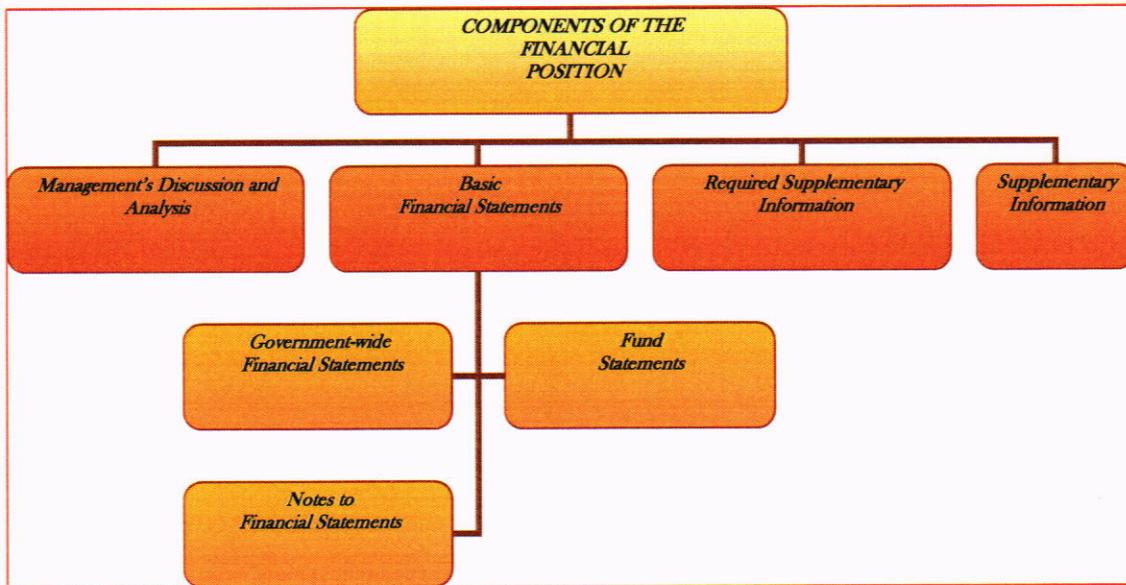
General Financial Highlights

- The investment in capital assets as of June 30, 2010 was \$34,242,437 (net of depreciation).
- Long-term debt decreased to \$9,217,577 or approximately 1% with respect to the prior fiscal year.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$123,646.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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 financial statements:

Basic Financial Statements

- **Government-Wide Financial Statements**

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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

- ***Fund Financial Statements***

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

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

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

Required supplementary information

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

Supplementary information

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

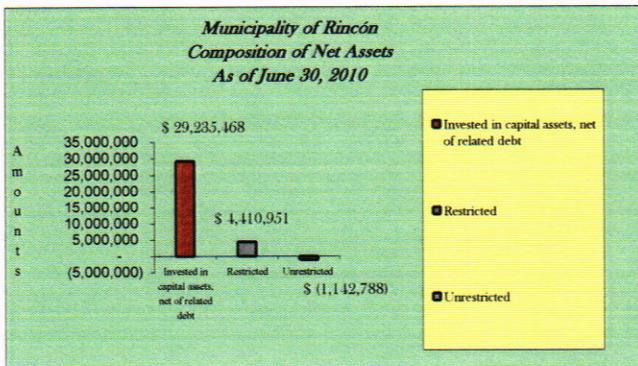
Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2010 and 2009:

TABLE 1

| <i>Summary Statement of Net Assets As of June 30,</i> | | |
|---|--------------------------------|----------------------|
| | Governmental Activities | |
| | 2010 | 2009 |
| Assets | | |
| Current and other assets | \$ 10,036,328 | \$ 11,431,204 |
| Capital assets, net | 34,242,437 | 30,262,864 |
| Total assets | \$ 44,278,765 | \$ 41,694,068 |
| Liabilities | | |
| Current and other liabilities | \$ 2,557,557 | \$ 3,237,951 |
| Long-term liabilities | 9,217,577 | 9,349,142 |
| Total liabilities | 11,775,134 | 12,587,093 |
| Net assets | | |
| Invested in capital assets, net of related debt | 29,235,468 | 25,773,570 |
| Restricted | 4,410,951 | 5,130,074 |
| Unrestricted (deficit) | (1,142,788) | (1,796,669) |
| Total net assets | \$ 32,503,631 | \$ 29,106,975 |

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. At June 30, 2010, assets exceeded its liabilities by \$32,503,631, representing an increase of 12% with respect to year 2009 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 (e.g., land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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 2010, the Municipality presented an unrestricted net assets deficit. This deficit primarily arises from operational 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

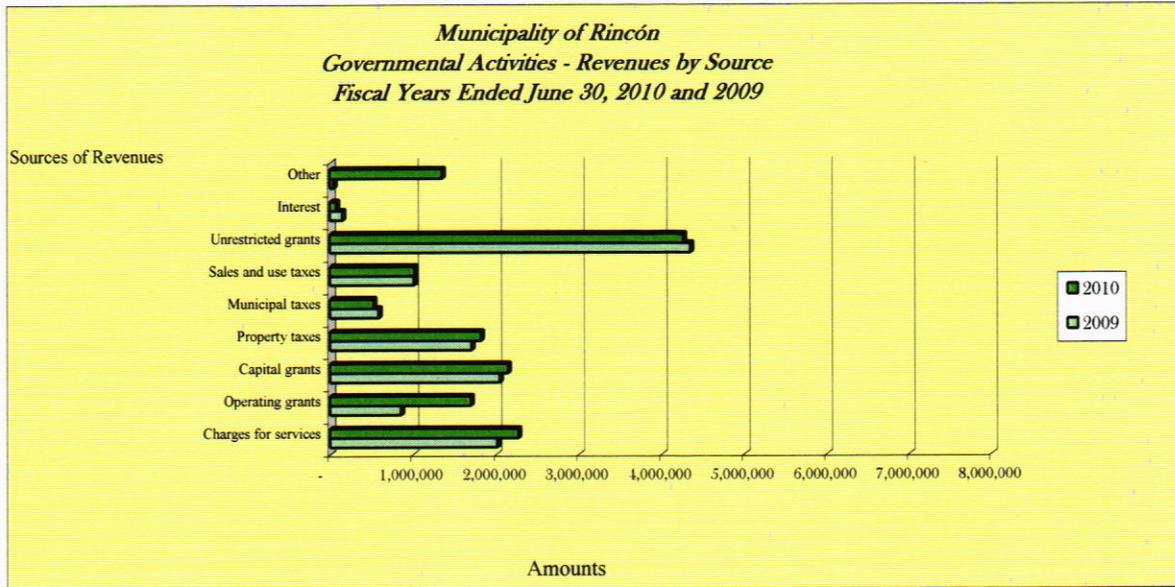
The following table summarizes the changes in net assets for the fiscal years ended 2010 and 2009:

TABLE 2

| Summary of Changes in Net Assets As of June 30, | | |
|--|--------------------------------|----------------------|
| | Governmental Activities | |
| | 2010 | 2009 |
| Program revenues: | | |
| Fees, fines and charges for services | \$ 2,260,087 | \$ 2,007,291 |
| Operating grants and contributions | 1,688,000 | 850,150 |
| Capital grants and contributions | 2,135,841 | 2,036,485 |
| General revenues: | | |
| Property taxes | 1,812,048 | 1,699,225 |
| Municipal license taxes | 519,974 | 585,631 |
| Sales and use taxes | 1,014,435 | 1,009,752 |
| Grants and contributions not restricted to specific programs | 4,259,480 | 4,344,382 |
| Interest | 70,657 | 146,104 |
| Other | 1,343,531 | 41,117 |
| Total revenues | 15,104,053 | 12,720,137 |
| Expenses: | | |
| General government | 5,088,927 | 5,149,143 |
| Public works and sanitation | 3,529,700 | 3,219,189 |
| Public safety | 930,145 | 914,280 |
| Culture and recreation | 720,482 | 835,821 |
| Health | 320,367 | 320,367 |
| Housing, welfare and community development | 815,939 | 844,477 |
| Education | 42,462 | 300,514 |
| Interest on long-term debt | 259,375 | 321,883 |
| Total expenses | 11,707,397 | 11,905,674 |
| Change in net assets | 3,396,656 | 814,463 |
| Net assets-beginning of year | 29,106,975 | 28,292,512 |
| Net assets-end of year | \$ 32,503,631 | \$ 29,106,975 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

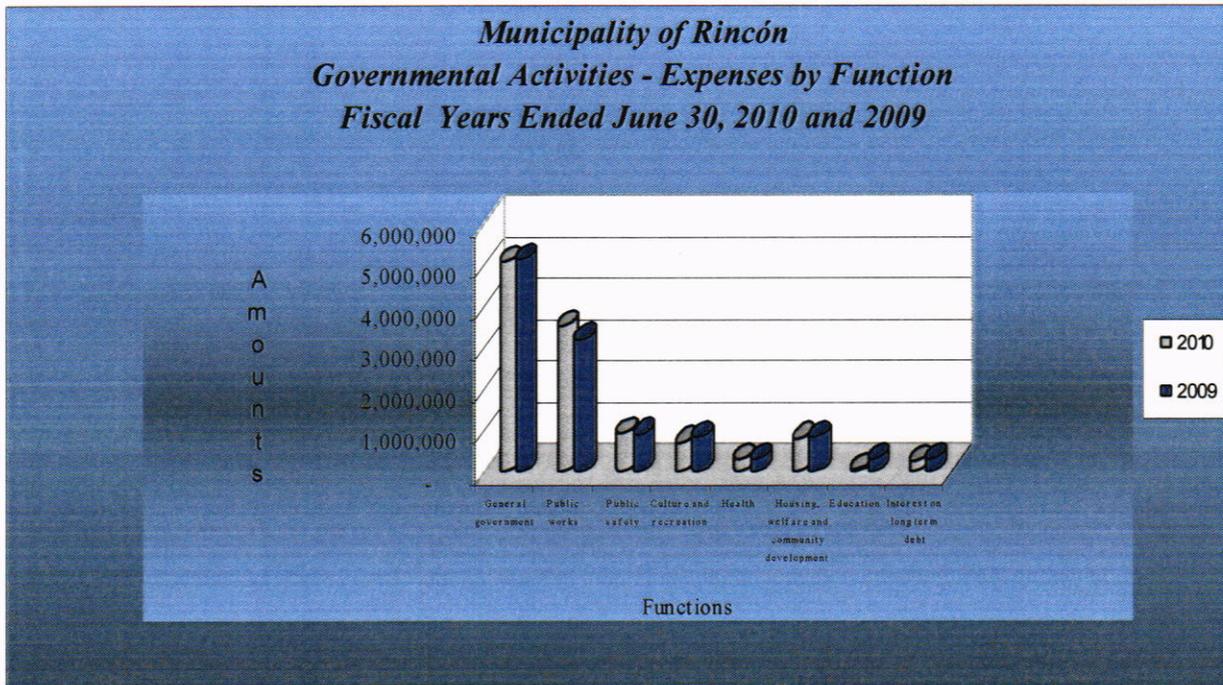
FIGURE 1



Approximately 28% of the Municipality's revenues came from unrestricted grants, 25% from operating and capital grants, 15% from fees, fines and charges for services, 12% from property taxes, 7% from sales and use taxes, 4% from municipal license taxes and 9% from other revenues. Revenues increased by 19% in comparison with fiscal year 2009. The most significant change is an increase in other revenues due to capital assets received in donation and the proceeds from a legal case awarded to the Municipality during the year. There was also a significant increase of 99% in operating grants, due mainly to improvement funds assigned by the Commonwealth Government. There was a 13% increase in fees, fines and charges for services caused mainly by an increase of revenues from transportation services. There are also increases in property taxes revenues (7%) and capital grants revenues (5%). There were decreases in revenues from municipal license taxes (11%) due to less construction projects developed during 2010, and interest revenue (52%) due to lower interest rates.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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 30% and public safety with 8%. Program revenues of the Municipality covered approximately 52% of total expenses.

Total expenses decreased only 2% in comparison with the previous fiscal year. This includes a decrease of 86% in education due to prior year improvements performed over public schools owned by the Commonwealth Government, a decrease of 19% in interest debt due to a decrease in the overall long-term debt, and minor decreases of 3% and 1% in housing, welfare and community development and general government expenses, respectively. These decreases were partially offset by a 10% increase in public works and sanitation expenses due to new funding received for public improvements.

As noted previously, the significant increase in revenues, combined with a minor decrease in expenses, resulted in an increase in net assets of approximately 317% when compared with the net change in net assets reported in the fiscal year 2009 statement of activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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

TABLE 3

| Net Cost of Municipality's Governmental Activities | | | | |
|---|-------------------------------|----------------------|-----------------------------|-----------------------|
| Fiscal years ended June 30, | | | | |
| Functions/Programs | Total Cost of Services | | Net Cost of Services | |
| | 2010 | 2009 | 2010 | 2009 |
| General government | \$ 5,088,927 | \$ 5,149,143 | \$ (2,641,608) | \$ (2,889,540) |
| Public works and sanitation | 3,529,700 | 3,219,189 | (531,409) | (1,146,996) |
| Public safety | 930,145 | 914,280 | (849,922) | (860,115) |
| Culture and recreation | 720,482 | 835,821 | (667,449) | (829,532) |
| Housing, welfare and community development | 815,939 | 844,477 | (320,161) | (342,801) |
| Other | 622,204 | 942,764 | (612,920) | (942,764) |
| | <u>\$ 11,707,397</u> | <u>\$ 11,905,674</u> | <u>\$ (5,623,469)</u> | <u>\$ (7,011,748)</u> |

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$2,260,087) and other governments and organizations that subsidized certain programs with grants and contributions (\$3,823,841). The \$(5,623,469) net cost of services was fully covered by other general revenues including grants and contributions not restricted to specific programs, 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, 2010, the governmental funds reported ending fund balances of \$5,849,621, a net decrease of \$704,196 in comparison with the prior fiscal year. This decrease was caused primarily by increases of \$508,868 and \$363,353 in the General Fund and the Debt Service Fund, respectively, with decreases of \$444,707, \$24,289, \$262,807 and \$844,614 in the Commonwealth Legislative Resolutions fund, the Community Development Block Grant Program Fund, the \$1,428,000-Loan Issuance Fund and the Other Governmental Funds, respectively. Of the total fund balances, \$977,649 (or 17%) constitutes unreserved fund balance. The remainder of the fund balances is reserved to indicate that it is not available for new spending.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The general fund is the operating fund of the Municipality. The unreserved fund balance of the general fund represents approximately 17% of total ending fund balances. For the year ended June 30, 2010, the fund balance of the general fund increased by a net change of \$508,868 when compared with the prior fiscal year. Of this net change, an increase of \$224,559 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).

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal year 2009-2010 presented a decrease of 5% with respect to the prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year 2010, budget revenues were increased by \$785,266 due to additional collections from a legal case against a third party (other revenues) and additional collections of property taxes. Budget expenditures were increased by \$87,266 while transfers out were increased by \$698,000. Actual revenues exceeded revised budgeted revenues by \$244,892 (net). The most significant variances were a positive variance of \$207,151 in intergovernmental revenues and a negative variance of \$71,294 in fees, fines and charges for services. The Municipality also reported a net negative variance of \$121,588 between revised budgeted appropriations and actual expenditures. Actual revenues exceeded actual expenditures by \$123,646.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year 2010, the Municipality has invested \$34,242,437 (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 13% over the prior fiscal year.

TABLE 4

| <i>Capital Assets, net As of June 30,</i> | | |
|---|--------------------------------|----------------------|
| | Governmental Activities | |
| | 2010 | 2009 |
| Non-depreciable assets: | | |
| Land | \$ 5,961,404 | \$ 5,430,332 |
| Construction in progress | 6,676,857 | 4,357,960 |
| Depreciable assets (net): | | |
| Land improvements | 568,343 | 511,447 |
| Buildings and buildings improvements | 13,264,803 | 13,527,835 |
| Infrastructure | 5,670,723 | 4,037,985 |
| Vehicles, machinery and equipment | 2,100,307 | 2,397,305 |
| Total | \$ 34,242,437 | \$ 30,262,864 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The Municipality's major capital projects that were still in construction as of June 30, 2010 are as follows:

- Barrero Sanitary Sewer System - \$2,199,117
- Construction of "Ventana al Mar" - \$1,321,745
- Construction of "Plaza la Amistad" - \$1,046,722
- Improvements to sports complex on Calvache ward - \$361,405
- Rio Grande Residential Development - \$281,061
- Construction of recreational facilities on Barrero ward - \$280,800

During the fiscal year 2010, equipment for a total amount of \$301,221 was placed in use including, among others, four vehicles for \$115,902, a security system for \$36,367, heavy equipment for \$75,881 and some trucks for \$49,616.

The Municipality's fiscal year 2010-2011 capital budget will call for a significant amount of projects including the reopening of the market place (first phase of "Ventana al Mar" project) with an estimated cost of \$1,660,000; the conclusion of "Plaza de la Amistad" with an estimated total cost of \$1,240,000; the conclusion of the Barrero sanitary sewer with an estimated total cost of \$2,250,000, the conclusion of the improvements to the sports complex in Calvache ward with an estimated total cost of \$400,000, and the conclusion of the BMX race track to be used in the Centro American Games, with an estimated total cost of \$300,000. These projects will be financed through Federal and Commonwealth grants, funds from the Commonwealth Legislature, general obligation bonds and Municipal funds. More detailed information about the Municipality's capital assets is presented in Note E to the financial statements.

Long-term debt

At year-end, the Municipality had \$6,864,000 in general and special bonds and notes, a decrease of 4% with respect to the prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2010 and 2009:

TABLE 5

| Outstanding Long-term Debt | | |
|--|--------------------------------|---------------------|
| Fiscal years ended June 30, | | |
| | Governmental Activities | |
| | 2010 | 2009 |
| General and special obligation bonds and notes | \$ 6,864,000 | \$ 7,132,000 |
| Note payable to CRIM – Law No. 42 | 419,083 | 427,864 |
| Note payable to CRIM – LIMS | 32,766 | 53,063 |
| Note payable to CRIM – financing of delinquent accounts | 45,287 | 47,346 |
| Line of credit - GDB | 215,881 | 215,881 |
| Payable to PREPA | 365,241 | 194,913 |
| P.R. Department of Treasury - prior years property taxes | - | 1,671 |
| Compensated absences | 1,085,684 | 1,078,381 |
| Christmas bonus payable | 164,716 | 176,554 |
| Payable to CRIM from property tax advances | 24,919 | 21,469 |
| Total | \$ 9,217,577 | \$ 9,349,142 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The Municipality reported a net increase in the other long-term debt of \$136,435. This increase was mostly affected by the net effect from the increase of \$170,328 in the debt with P.R. Electric Power Authority (PREPA), and decreases of \$20,297 and \$11,838 in the LIMS and Christmas bonus debts, respectively. More detailed information about the Municipality's long-term liabilities is presented in Note F of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's officials considered certain factors when establishing the fiscal year 2010-2011 budget. One of these factors is the economy. Among the 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 16.2%, which compares with the Commonwealth rate of 16.6%.

For fiscal year 2010-2011 the Municipality has applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund will be \$8,785,000, representing an increase of 6% with respect to prior fiscal year estimates. Budgeted expenditures are expected to rise according to the increase of budgeted revenues. If these estimates are achieved, the Municipality's budgetary general fund balance is expected to increase modestly by the close of the 2010-2011 fiscal year. In addition to the general fund estimated budget, the Municipality plans to submit to the Federal and Commonwealth Governments proposals for welfare and community development as well as permanent capital improvements and public works. In the past, the construction industry was one of the major sources of income generated by the Municipality contributing with construction permits fees from housing projects. At present, revenues from operating, and capital grants and contributions, along with revenues from fees, fines and charges for services generated the funding previously provided by the construction industry. Management believes that this contribution level will be maintained in next fiscal year. In addition, revenues from sales and use taxes are expected to increase significantly the revenues of 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 please contact the Finance Department at the Municipality of Rincon, PO Box 97, Rincon, P.R. 00677.

BASIC FINANCIAL STATEMENTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
STATEMENT OF NET ASSETS
JUNE 30, 2010**

| ASSETS | <u>Governmental Activities</u> |
|--|---|
| Cash and cash equivalents | \$ 2,277,186 |
| Due from: | |
| Commonwealth Government (note C) | 969,374 |
| Federal Government (note C) | 325,256 |
| Restricted assets: | |
| Cash and cash equivalents | 3,053,465 |
| Cash with fiscal agent | 3,381,565 |
| Deferred bond issuance costs, net of accumulated amortization of \$22,087 | 29,482 |
| Capital assets (note E): | |
| Land and construction in progress | 12,638,261 |
| Other capital assets, net | 21,604,176 |
| Total capital assets, net | <u>34,242,437</u> |
| Total assets | <u><u>\$ 44,278,765</u></u> |
| LIABILITIES | |
| Accounts payable and accrued liabilities | \$ 1,074,958 |
| Interest payable | 110,752 |
| Due to: | |
| Commonwealth Government | 101,505 |
| Deferred revenues: | |
| Municipal license taxes | 356,887 |
| Intergovernmental-Commonwealth agencies | 348,183 |
| Intergovernmental-Federal grants | 565,272 |
| Long-term liabilities (note F): | |
| Due within one year | 1,103,091 |
| Due in more than one year | 8,114,486 |
| Total liabilities | <u><u>11,775,134</u></u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 29,235,468 |
| Restricted for: | |
| Debt service | 1,714,924 |
| Capital projects | 2,021,602 |
| Other specified purposes | 674,425 |
| Unrestricted (deficit) | (1,142,788) |
| Total net assets | <u><u>\$ 32,503,631</u></u> |

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2010

| Functions | Program Revenues | | | Net (expenses) revenues and change in net assets |
|-----------------------------------|----------------------|--------------------------------------|------------------------------------|--|
| | Expenses | Fees, Fines and Charges for Services | Operating Grants and Contributions | |
| Governmental Activities: | | | | |
| General government | \$ 5,088,927 | \$ 2,257,762 | \$ 99,116 | \$ 90,441 |
| Public works and sanitation | 3,529,700 | - | 1,125,308 | 1,872,983 |
| Public safety | 930,145 | - | 80,223 | - |
| Culture and recreation | 720,482 | 2,325 | 50,708 | - |
| Health | 320,367 | - | - | - |
| Welfare and community development | 815,939 | - | 323,361 | 172,417 |
| Education | 42,462 | - | 9,284 | - |
| Interest on long-term debt | 259,375 | - | - | - |
| Total | \$ 11,707,397 | \$ 2,260,087 | \$ 1,688,000 | \$ 2,135,841 |

| | |
|--|----------------------|
| General revenues : | |
| Taxes: | |
| Property taxes | 1,812,048 |
| Municipal license taxes | 519,974 |
| Sales and use taxes | 1,014,435 |
| Grants contributions not restricted to specific programs | 4,259,480 |
| Interest | 70,657 |
| Other | 1,343,531 |
| Total general revenues | <u>9,020,125</u> |
| Change in net assets | 3,396,656 |
| Net assets-beginning | 29,106,975 |
| Net assets-ending | \$ 32,503,631 |

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
BALANCE SHEET -
GOVERNMENTAL FUNDS
JUNE 30, 2010

| | Major Funds | | | | | | | Total Governmental Funds |
|--|---------------------|--|---------------------|--|--|-------------------------------------|---------------------------------|--------------------------------|
| | General Fund | Commonwealth Legislative Resolutions | Debt Service | Community Development Block Grant Program | Rural Development Corporation-Marine Facilities | Barrero Sanitary Sewer System | \$1,428,000 Loan Issuance | |
| Assets | | | | | | | | |
| Cash and cash equivalents | \$ 2,277,186 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Due from: | | | | | | | | |
| Commonwealth Government | 635,537 | - | 45,501 | - | - | - | 288,336 | 969,374 |
| Federal Government | - | - | - | 289,784 | - | - | 35,472 | 325,256 |
| Other funds (note D) | 139,299 | - | 18,020 | - | - | - | - | 157,319 |
| Advances to other funds (note D) | - | 600,733 | - | - | - | - | - | 600,733 |
| Restricted assets: | | | | | | | | |
| Cash and cash equivalents | - | 943,518 | - | 30 | 320,714 | 739,375 | - | 1,049,828 |
| Cash with fiscal agent | - | - | 1,761,993 | - | - | - | 894,273 | 725,299 |
| Total assets | \$ 3,052,022 | \$ 1,544,251 | \$ 1,825,514 | \$ 289,814 | \$ 320,714 | \$ 739,375 | \$ 894,273 | \$ 10,764,898 |
| Liabilities and Fund Balances (Deficit) | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 191,155 | \$ 38,644 | \$ - | \$ 232,831 | \$ - | \$ 234,862 | \$ 44,428 | \$ 1,074,958 |
| Matured bonds and interest payable | - | - | 610,228 | - | - | - | - | 610,228 |
| Due to: | | | | | | | | |
| Commonwealth Government | 122,518 | - | - | - | - | - | - | 317,386 |
| Other funds | 18,020 | - | - | 56,923 | - | - | - | 157,319 |
| Advances from other funds | 600,733 | - | - | - | - | - | - | 82,376 |
| Deferred revenues (notes G and I): | | | | | | | | |
| Municipal License taxes | 356,887 | - | - | - | - | - | - | 356,887 |
| Intergovernmental - Commonwealth Government | 471,712 | - | 5,806 | - | 320,714 | - | - | 1,038,754 |
| Intergovernmental - Federal grants | - | - | - | 225,393 | - | 504,513 | - | 759,012 |
| Total liabilities | 1,761,025 | 38,644 | 616,034 | 515,147 | 320,714 | 739,375 | 44,428 | 4,915,277 |
| Fund Balances (Deficit): | | | | | | | | |
| Reserved for: | | | | | | | | |
| Encumbrances | 81,363 | - | - | - | - | - | - | 81,363 |
| Debt Service | - | - | 1,209,480 | - | - | - | - | 1,209,480 |
| Capital projects (note P) | - | 904,874 | - | - | - | - | 849,845 | 2,919,818 |
| Other specified purposes | 6,652 | - | - | - | - | - | 53,926 | 60,578 |
| Advances | - | 600,733 | - | - | - | - | - | 600,733 |
| Unreserved: | | | | | | | | |
| Designated for subsequent years expenditures | 726,118 | - | - | - | - | - | - | 726,118 |
| Undesignated (note P) | 476,864 | - | - | (225,333) | - | - | - | 251,531 |
| Total fund balances (deficit) | 1,290,997 | 1,505,607 | 1,209,480 | (225,333) | - | - | 849,845 | 5,849,621 |
| Total liabilities and fund balances (deficit) | \$ 3,052,022 | \$ 1,544,251 | \$ 1,825,514 | \$ 289,814 | \$ 320,714 | \$ 739,375 | \$ 894,273 | \$ 10,764,898 |

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, 2010**

| | | |
|--|-------------|----------------------|
| Total fund balances - governmental funds | | \$ 5,849,621 |
| <p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p> | | |
| <p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet</p> | | 34,242,437 |
| <p>Other assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds: Deferred charges - bond issuance costs, net</p> | | 29,482 |
| <p>Other assets are not available to pay current-period expenditures and, therefore, are deferred in the funds:</p> | | |
| <p>Due from Commonwealth Government:</p> | | |
| Christmas bonus reimbursement | \$ 82,358 | |
| Sales and use tax- Debt Service Fund | 5,806 | |
| P.R. Department of Education | 24,113 | |
| Line of Credit (Office of Management and Budget) | 194,868 | |
| P.R. Electric Power Authority (PREPA) | 365,241 | |
| Office of Elderly Affairs (OGAVE) | 13,114 | |
| Others | 5,071 | 690,571 |
| <p>Due from Federal Government:</p> | | |
| Federal grant - CDBG | | 193,740 |
| <p>Interest liabilities are not due and payable in the current period and, therefore, are not reported in the funds</p> | | (17,524) |
| <p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:</p> | | |
| General obligation bonds and notes | (6,347,000) | |
| Note payable to CRIM-Law No. 42 | (419,083) | |
| Note payable to CRIM-LIMS | (32,766) | |
| Note payable to CRIM-financing of delinquent accounts | (45,287) | |
| Payable to CRIM - property tax advances | (24,919) | |
| Compensated absences | (1,085,684) | |
| Christmas bonus | (164,716) | |
| Debt payable to P.R. Electric Power Authority | (365,241) | (8,484,696) |
| Net assets of governmental activities | | \$ 32,503,631 |

The accompanying notes are an integral part of these statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT) -
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2010

| | Major Funds | | | | | | | | | | Total Governmental Funds | |
|--|---------------------|--------------------------------------|---------------------|---|---|-------------------------------|---------------------------|--------------------------|---------------------|-------------|--------------------------|---------------------|
| | General Fund | Commonwealth Legislative Resolutions | Debt Service | Community Development Block Grant Program | Rural Development Corporation-Marine Facilities | Barrero Sanitary Sewer System | \$1,428,000 Loan Issuance | Other Governmental Funds | | | | |
| Revenues: | | | | | | | | | | | | |
| Taxes: | | | | | | | | | | | | |
| Property taxes (note H) | \$ 1,147,674 | - | \$ 718,208 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,865,882 |
| Municipal license taxes (note I) | 519,974 | - | - | - | - | - | - | - | - | - | - | 519,974 |
| Sales and use taxes (note J) | 797,171 | - | 269,411 | - | - | - | - | - | - | - | - | 1,066,582 |
| Intergovernmental: | | | | | | | | | | | | |
| Commonwealth Government (note K) | 5,753,085 | - | - | - | - | - | - | - | - | - | - | 6,970,196 |
| Federal Government | - | - | - | 1,442,256 | - | 685,889 | - | - | - | - | - | 2,649,894 |
| Fees, fines and charges for services | 697,983 | - | - | - | - | - | - | - | - | - | - | 697,983 |
| Interest | 39,080 | - | 1,206 | - | - | - | - | - | - | - | - | 70,657 |
| Other | 722,051 | - | - | - | - | - | - | - | - | - | - | 722,051 |
| Total revenues | 9,677,018 | - | 988,825 | 1,442,256 | - | 685,889 | - | 15,768 | 1,753,463 | - | 15,768 | 14,563,219 |
| Expenditures: | | | | | | | | | | | | |
| Current: | | | | | | | | | | | | |
| General government | 4,403,288 | - | - | 106,594 | - | - | - | - | - | - | - | 4,531,432 |
| Public works and sanitation | 2,320,081 | 167,160 | - | 8,183 | - | - | - | - | - | - | - | 2,772,894 |
| Public Safety | 830,902 | - | - | - | - | - | - | - | - | - | - | 832,513 |
| Culture and recreation | 453,442 | - | - | - | - | - | - | - | - | - | - | 453,442 |
| Health | 320,367 | - | - | - | - | - | - | - | - | - | - | 320,367 |
| Welfare and community development | 265,375 | - | - | 172,417 | - | - | - | - | - | - | - | 874,283 |
| Education | - | - | - | - | - | - | - | - | - | - | - | 39,285 |
| Capital outlays | 235,491 | 239,882 | - | 1,195,504 | - | 685,889 | - | 30,001 | 9,284 | - | 232,806 | 4,655,552 |
| Debt Service: | | | | | | | | | | | | |
| Principal | - | - | 568,000 | - | - | - | - | - | - | - | - | 568,000 |
| Interest | - | - | 225,099 | - | - | - | - | - | - | - | - | 225,099 |
| Bond issuance costs | - | - | - | - | - | - | - | - | - | - | - | - |
| Total expenditures | 8,828,946 | 407,042 | 793,099 | 1,482,698 | - | 685,889 | - | 262,807 | 2,814,011 | - | 1,625 | 15,274,492 |
| Excess (deficiency) of revenues over expenditures | 848,072 | (407,042) | 195,726 | (40,442) | - | - | - | (247,039) | (1,060,548) | - | (247,039) | (711,273) |
| Other financing sources (uses): | | | | | | | | | | | | |
| Proceeds from general obligation bonds | - | - | - | - | - | - | - | - | - | - | - | 325,000 |
| Payment of PREPA debt | (317,923) | - | - | - | - | - | - | - | - | - | - | (317,923) |
| Transfers in | 185,079 | - | 168,409 | 16,153 | - | - | - | - | - | - | - | 391,439 |
| Transfers (out) | (206,360) | (37,665) | (782) | - | - | - | - | (15,768) | (130,864) | - | - | (391,439) |
| Total other financing resources (uses) | (339,204) | (37,665) | 167,627 | 16,153 | - | - | - | (15,768) | 215,934 | - | (15,768) | 7,077 |
| Net change in fund balances (deficit) | 508,868 | (444,707) | 363,353 | (24,289) | - | - | - | (262,807) | (844,614) | - | (262,807) | (704,196) |
| Fund balances (deficit) at beginning of year | 782,129 | 1,950,314 | 846,127 | (201,044) | - | - | - | 1,112,652 | 2,063,639 | - | 1,112,652 | 6,553,817 |
| Fund balances (deficit) at end of year | \$ 1,290,997 | \$ 1,505,607 | \$ 1,209,480 | \$ (225,333) | \$ - | \$ - | \$ - | \$ 849,845 | \$ 1,219,025 | \$ - | \$ 849,845 | \$ 5,849,621 |

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The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2010**

| | | |
|--|--------------------|----------------------------|
| Net change in fund balances (deficit) - total governmental funds | | \$ (704,196) |
| 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 | \$ 4,655,552 | |
| Less: current year depreciation | <u>(1,289,996)</u> | 3,365,556 |
| 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 | 1,625 | |
| Amortization of bond issuance costs | <u>(3,812)</u> | (2,187) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds: | | |
| Christmas bonus reimbursement | 82,358 | |
| Sales and use tax-Debt Service Fund | 5,806 | |
| P.R. Department of Education | 24,113 | |
| P.R. Electric Power Authority (PREPA) | 325,501 | |
| Federal Grant - CDBG | 193,740 | |
| Donated assets | 621,480 | |
| Others | <u>5,071</u> | 1,258,069 |
| Revenues reported in funds which are not reported as revenues in the Statement of Activities: | | |
| Christmas bonus reimbursement-prior year | 88,277 | |
| Property taxes-General Fund | 53,834 | |
| Sales and use tax-General Fund | 28,356 | |
| Sales and use tax-Debt Service Fund | 29,597 | |
| P.R. Department of Education | 20,500 | |
| P.R. Electric Power Authority (PREPA) | 155,173 | |
| Federal Grant - CDBG | 201,044 | |
| Federal Grants- Title III-B, C1 and C2 | 25,623 | |
| Federal Grant- Homeland Security | 16,183 | |
| Federal Grant- NSIP | <u>2,421</u> | (621,008) |
| Proceeds from general obligation bonds are other financing sources in the governmental funds, but increase long-term liabilities in the Statement of Net Assets | | |
| | | (325,000) |
| 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 | | |
| | | (7,463) |
| Expenditures reported in funds which are not reported as expenses in the Statement of Activities: | | |
| Matured bonds principal payments (net change) | | (25,000) |
| Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets: | | |
| General obligation bonds and notes | 593,000 | |
| Other long-term liabilities | <u>673,216</u> | 1,266,216 |
| 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 | (153,234) | |
| Christmas bonus | (164,716) | |
| Debt payment to P.R. Electric Power Authority | (488,251) | |
| Accrued interest (net change) | 1,320 | |
| Other | <u>(3,450)</u> | (808,331) |
| Change in net assets of governmental activities | | <u>\$ 3,396,656</u> |

The accompanying notes are an integral part of these statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1. *Financial reporting entity*

The financial reporting entity included in this report consists of the financial statements of the Municipality of Rincon (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component 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, 2010**

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

Management'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

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, 2010**

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'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, 2010**

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 is 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 statements users (for Rural Development Corporation - Marine Facilities and \$1,428,000 Loan Issuance 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 (including CDBG – ARRA) 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 for the acquisition of marine facilities to be used by citizens of the Municipality.

**COMMONWEALTH OF PUERTO RICO
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JUNE 30, 2010**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 community.

\$1,428,000 Loan Issuance Fund: This fund accounts for proceeds from a special obligation note issued by the Governmental Development Bank of P.R. (GDB) for specific purposes, that are, acquisition and improvements to land and recreational facilities.

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

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

The Municipality reports in the governmental fund financial 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 the 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 balance sheet and the revenue is recognized.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 funds statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is necessary to explain the adjustments needed to transform the funds 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. *Deposits and investments*

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. 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 balances beyond immediate needs are invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. *Restricted assets*

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law. Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

5. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined based on past collection experience and current economic conditions. Amounts due from the 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 the current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

6. *Interfund receivables and payables*

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

7. *Inventories*

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

8. *Capital assets*

Capital assets reported in the governmental activities in the Statements of Net Assets include property, plant, equipment and infrastructure, (e.g., roads, bridges, sidewalks, and similar items). The Municipality defines capital assets (except for infrastructure assets) as assets that have an individual cost of \$500 or more and have a useful life of one or more years. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

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

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

9. Long-term obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the 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.

10. 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.

11. Compensated absences

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

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 funds financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

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

12. Fund balances and Net Assets

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

| | |
|---------------------------|--|
| 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 assigned by management for future spending to finance operational costs which are not legally segregated.

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

| | |
|--|--|
| Invested in capital assets, net of related debt: | Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted for 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, 2010**

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 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.

13. 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.

14. Risk financing

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

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

15. 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
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JUNE 30, 2010**

NOTE C- DUE FROM GOVERNMENTAL ENTITIES

Amounts due from governmental entities as of June 30, 2010 follows:

| | Commonwealth Government | Federal Government |
|---|------------------------------------|-------------------------------|
| <u>Major fund - General fund:</u> | | |
| P.R. Electric Power Authority (PREPA) | \$ 365,241 | \$ - |
| Municipal Revenue Collection Center (CRIM)- property taxes and intergovernmental subsidy (general fund) | 43,609 | - |
| P.R. Department of Treasury – Christmas bonus reimbursement | 82,358 | - |
| P.R. Department of Education | 29,113 | - |
| P.R. Department of Treasury – sales and use taxes-1% and Municipal Development fund | 90,216 | - |
| P.R. Department of Labor – Law No. 52 and 82 | 25,000 | - |
| <u>Major fund – Debt service fund:</u> | | |
| Municipal Revenue Collection Center (CRIM) – property taxes | 12,952 | - |
| P.R. Department of Treasury – sales and use taxes-Municipal Redemption Fund | 32,549 | - |
| <u>Major fund – CDBG fund:</u> | | |
| Office of Commissioner of Municipal Affairs – CDBG | - | 289,784 |
| <u>Other governmental funds:</u> | | |
| \$1,200,000 Line of credit (Office of Management and Budget) | 194,868 | - |
| P.R. Department of Transportation | 50,708 | - |
| P.R. Infrastructure Financing Authority (PRIFA) | 36,621 | - |
| P.R. Department of Family – Families and Children Administration – Child Care and Development Block Grant | - | 16,426 |
| Others | 6,139 | 19,046 |
| | \$ 969,374 | \$ 325,256 |

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.

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 by the general and the debt service funds to finance payroll, payroll taxes and other expenditures, as follows:

**COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE D- INTERFUND TRANSACTIONS - Continued

| <u>Receivable Funds</u> | <u>Payable Funds</u> | <u>Amount</u> |
|-------------------------|--|--------------------------|
| General Fund | Major Funds: CDBG | \$ 56,923 |
| | Other Governmental Funds: Child Care | 49,710 |
| | OGAVEIOPEA | 21,738 |
| | Other | 10,928 |
| Debt Service Fund | Major Funds: General Fund | 18,020 |
| Total: | | <u><u>\$ 157,319</u></u> |

2. Advances to other funds

Advances to other funds includes \$600,733 advances by the Commonwealth Legislative Grants Fund to the general fund for the payment of payrolls, payroll taxes and other operational expenditures in previous periods not reimbursed as of fiscal year-end. The general fund reimbursed \$94,025 during fiscal year 2009-2010.

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 is transferred to the general fund, (2) interest in Commonwealth Legislature Resolutions fund 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.

NOTE E- CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2010 are as follows:

| | <u>Balance July 1, 2009</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2010</u> |
|---|---------------------------------|------------------|------------------|----------------------------------|
| <u>Governmental activities:</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 5,430,332 | \$ 531,072 | \$ - | \$ 5,961,404 |
| Construction in progress | 4,357,960 | 3,067,719 | 748,822 | 6,676,857 |
| Total capital assets not being depreciated | <u>9,788,292</u> | <u>3,598,791</u> | <u>748,822</u> | <u>12,638,261</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 550,717 | 86,770 | - | 637,487 |
| Buildings and buildings improvements | 17,292,375 | 88,530 | - | 17,380,905 |
| Infrastructure | 7,569,523 | 1,950,541 | 14,294 | 9,505,770 |
| Vehicles, machinery and equipment | 6,942,869 | 301,221 | 38,740 | 7,205,350 |
| Total capital assets being depreciated | <u>32,355,484</u> | <u>2,427,062</u> | <u>53,034</u> | <u>34,729,512</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE E- CAPITAL ASSETS - Continued

| | Balance July 1, 2009 | Increases | Decreases | Balance June 30, 2010 |
|--|-------------------------|---------------------|-------------------|--------------------------|
| Less accumulated depreciation for: | | | | |
| Land improvements | \$ 39,270 | \$ 29,874 | \$ - | \$ 69,144 |
| Buildings and buildings improvements | 3,764,540 | 351,562 | - | 4,116,102 |
| Infrastructure | 3,531,538 | 314,444 | 10,935 | 3,835,047 |
| Vehicles, machinery and equipment | 4,545,564 | 594,116 | 34,637 | 5,105,043 |
| Total accumulated depreciation | 11,880,912 | 1,289,996 | 45,572 | 13,125,336 |
| Total capital assets being depreciated, net | 20,474,572 | 1,137,066 | 7,462 | 21,604,176 |
| Governmental activities capital assets, net | \$ 30,262,864 | \$ 4,735,857 | \$ 756,284 | \$ 34,242,437 |

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

Governmental activities:

| | |
|--|---------------------|
| General government | \$ 218,847 |
| Public works and sanitation | 708,768 |
| Public safety | 65,146 |
| Culture and recreation | 266,825 |
| Welfare and community development | 30,036 |
| Education | 374 |
| Total depreciation expense, governmental activities | \$ 1,289,996 |

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010:

| | Balance at July 1, 2009 | Increases | Decreases | Balance at June 30, 2010 | Due within one year |
|---|----------------------------|---------------------|---------------------|-----------------------------|------------------------|
| General, Special Obligation Bonds and Notes | \$ 7,132,000 | \$ 325,000 | \$ 593,000 | \$ 6,864,000 | \$ 570,000 |
| Note payable to CRIM-Law No. 42 | 427,864 | - | 8,781 | 419,083 | 9,333 |
| Note payable to CRIM-LIMS | 53,063 | - | 20,297 | 32,766 | 21,522 |
| Note payable to CRIM-financing of delinquent accounts | 47,346 | - | 2,059 | 45,287 | 2,059 |
| Line of credit - GDB | 215,881 | - | - | 215,881 | - |
| Payable to Puerto Rico Treasury Department - prior years property taxes | 1,671 | - | 1,671 | - | - |
| Compensated absences | 1,078,381 | 153,234 | 145,931 | 1,085,684 | 111,502 |
| Christmas bonus | 176,554 | 164,716 | 176,554 | 164,716 | 164,716 |
| Payable to CRIM- property tax advances current | 21,469 | 3,450 | - | 24,919 | 21,469 |
| Payable to PREPA | 194,913 | 488,251 | 317,923 | 365,241 | 202,490 |
| | <u>\$ 9,349,142</u> | <u>\$ 1,134,651</u> | <u>\$ 1,266,216</u> | <u>\$ 9,217,577</u> | <u>\$ 1,103,091</u> |

2. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2010 amount to \$6,864,000. 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 funds have 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).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE F- LONG-TERM DEBT - Continued

Principal and interest payments of special obligation notes of \$705,000 and \$1,428,000 are made through the "Municipal Redemption Fund". A detail of the general and special obligation bonds and notes as of June 30, 2010 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% | \$ 312,000 |
| 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 1.28% to 7.81% (1.28% at June 30, 2010) | 125,000 |
| 2002 special obligation bonds of \$635,000 due in annual installments of \$5,000 to \$50,000 through January 1, 2027; bearing interest at rates ranging from 1.53% to 6.50% (1.53% at June 30, 2010) | 550,000 |
| 2002 general obligation bonds of \$1,660,000 due in annual installments of \$25,000 to \$130,000 through July 1, 2026; bearing interest at rates ranging from 2.7% to 5.6% (4.30% at June 30, 2010) | 1,380,000 |
| 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% | 450,000 |
| 2005 general obligation bonds of \$192,000 due in annual installments of \$15,000 to \$24,000 through July 1, 2014; bearing interest at rates ranging from 1.53% to 6.62% (1.53% at June 30, 2010) | 107,000 |
| 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% (4.50% at June 30, 2010) | 310,000 |
| 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 1.53% to 7.50% (1.53% at June 30, 2010) | 345,000 |
| 2008 general obligation bonds of \$500,000 due in annual installments of \$5,000 to \$40,000 through July 1, 2032; bearing interest at rates ranging from 1.53% to 7.25% (1.53% at June 30, 2010) | 485,000 |

**COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE F- LONG-TERM DEBT - Continued

| | Outstanding Amount |
|---|-------------------------------|
| 2008 general obligation bonds of \$455,000 due in annual installments of \$15,000 to \$50,000 through July 1, 2023; bearing interest at rates ranging from 1.53% to 7.50% (1.53% at June 30, 2010) | \$ 440,000 |
| 2008 special obligation notes of \$705,000 due in annual installments of \$50,000 to \$95,000 through July 1, 2018; bearing interest at rates ranging from 1.53% to 7.50% (1.53% at June 30, 2010) | 655,000 |
| 2008 special obligation notes of \$1,428,000 due in annual installments of \$48,000 to \$159,000 through July 1, 2023; bearing interest at rates ranging from 1.53% to 7.50% (1.53% at June 30, 2010) | 1,380,000 |
| 2009 general obligation bonds of \$325,000 due in annual installments of \$5,000 to \$30,000 through July 1, 2034; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2010) | 325,000 |
| | \$ 6,864,000 |

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2010 follows:

| June 30, | Principal | Interest |
|-----------------|---------------------|---------------------|
| 2011 | \$ 570,000 | \$ 394,538 |
| 2012 | 478,000 | 378,762 |
| 2013 | 516,000 | 347,281 |
| 2014 | 431,000 | 319,102 |
| 2015 | 350,000 | 297,174 |
| 2016-2020 | 1,812,000 | 1,121,708 |
| 2021-2025 | 1,722,000 | 533,471 |
| 2026-2030 | 750,000 | 159,977 |
| 2031-2035 | 235,000 | 37,243 |
| Totals | \$ 6,864,000 | \$ 3,589,256 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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 owe to CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. The 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:

\$ 419,083

| <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------|-------------------|-------------------|
| 2011 | \$ 9,333 | \$ 25,889 |
| 2012 | 9,919 | 25,103 |
| 2013 | 10,543 | 24,579 |
| 2014 | 11,205 | 23,917 |
| 2015 | 11,909 | 23,213 |
| 2016-2020 | 71,755 | 103,853 |
| 2021-2025 | 97,314 | 78,294 |
| 2026-2030 | 131,977 | 43,631 |
| 2031-2033 | 65,128 | 5,114 |
| Totals | <u>\$ 419,083</u> | <u>\$ 353,593</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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 taxpayers' 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. The amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the CRIM. Debt service requirements in future years are as follows:

\$ 32,766

| <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------|------------------|-----------------|
| 2011 | \$ 21,522 | \$ 1,527 |
| 2012 | 11,244 | 279 |
| Totals | <u>\$ 32,766</u> | <u>\$ 1,806</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE F- LONG-TERM DEBT - Continued

**Outstanding
Amount**

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

\$ 45,287

| <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------|------------------|------------------|
| 2011 | \$ 2,059 | \$ 2,817 |
| 2012 | 2,059 | 2,689 |
| 2013 | 2,059 | 2,561 |
| 2014 | 2,059 | 2,433 |
| 2015 | 2,059 | 2,305 |
| 2016-2020 | 10,292 | 9,603 |
| 2021-2025 | 10,292 | 6,402 |
| 2026-2030 | 10,292 | 3,201 |
| 2031-2033 | 4,116 | 384 |
| Totals | <u>\$ 45,287</u> | <u>\$ 32,395</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE F- LONG-TERM DEBT - Continued

| | Outstanding Amount |
|--|-------------------------------|
| <p>Line of credit, Government Development Bank of P.R. (GDB) – On February 25, 2004, the Municipality entered into a \$1,200,000 (including interest) line of credit agreement with GDB for the construction of a New City Hall. Borrowings under this agreement bears interest at variable rates (LIBOR + 1.25% ranging from 5% to 12% annually) and are payable upon maturity of the line of credit agreement in June 30, 2008 (see related note O). This line of credit is 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.</p> | <p>\$ 215,881</p> |
| <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. The amount is paid with unrestricted funds</p> | <p>1,085,684</p> |
| <p>Christmas Bonus - represents the accrued portion corresponding to fiscal year 2010 of the Christmas bonus to be paid in December 2010.</p> | <p>164,716</p> |
| <p>Payable to CRIM, property tax advances – represents the amount reported by CRIM of the settlement of excess of advances over actual collections of property taxes applicable to fiscal years 2009 and 2010. (See related note H).</p> | <p>24,919</p> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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 2008-2009 the Municipality's annual energy charges amounted to \$1,227,678 but the CELI obligation amounted to \$739,427. The excess amount of \$488,251 was recorded as a payable and a receivable for the same amount and will be amortized over a three-year period. As of June 30, 2010 the outstanding amount of \$365,241 includes a balance of \$39,740 from fiscal year 2008 and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:

\$ 365,241

| <u>June 30</u> | <u>Principal</u> |
|----------------|--------------------------|
| 2011 | \$ 202,490 |
| 2012 | 162,751 |
| Totals | <u><u>\$ 365,241</u></u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE G - DEFERRED REVENUES – GOVERNMENTAL FUNDS

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

| | Commonwealth Government | Federal Grants |
|---|------------------------------------|---------------------------|
| <u>Major fund - general fund:</u> | | |
| Puerto Rico Department of Treasury – Christmas Bonus Reimbursement | \$ 82,358 | \$ - |
| P.R. Department of Education | 24,113 | - |
| P.R. Electric Power Authority (PREPA) | 365,241 | - |
| <u>Major fund – debt service fund:</u> | | |
| Municipal Revenue Collection Center (CRIM) – sales and use taxes, Municipal Redemption Fund (debt service fund) | 5,806 | - |
| <u>Major fund – Community Development Block Grant fund:</u> | | |
| Office of Commissioner of Municipal Affairs -CDBG | - | 225,393 |
| <u>Major fund – Rural Development Corporation Marine Facilities</u> | | |
| Rural Development Corporation – cash advances | 320,714 | - |
| <u>Major fund – Barrero Sanitary Sewer System</u> | | |
| Rural Development – cash advances | - | 504,513 |
| <u>Major fund – \$1,200,000 Line of Credit</u> | | |
| Governmental Development Bank of P.R. | 194,868 | - |
| <u>Other governmental funds</u> | | |
| P.R. Police Department – Public Order Code | 27,469 | - |
| Office of Elderly Affairs | 13,114 | - |
| Improvements of Recreational Facilities - Barrero | 5,071 | - |
| Office of Elderly Affairs – Title III-B and III-E | - | 3,991 |
| ARRA – Homeless Prevention and Rapid Re-housing Program Fund | - | 19,506 |
| Others | - | 5,609 |
| | \$ 1,038,754 | \$ 759,012 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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 general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2010 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 for in the Municipality's general fund | 4.00% | 6.00% |
| Percent that belongs to the Commonwealth's debt service fund | 1.03% | 1.03% |
| Percent that belongs to the Municipality's debt service fund | <u>2.00%</u> | <u>2.00%</u> |
| Total tax rate | 7.03% | 9.03% |
| Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department | <u>(.20%)</u> | <u>(.20%)</u> |
| Total percent to be paid by taxpayers | <u><u>6.83%</u></u> | <u><u>8.83%</u></u> |

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

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A net payable of \$24,919 resulting from the settlement of fiscal year 2009 and the preliminary settlement of fiscal year 2010 is recorded as other long-term debt in the government-wide financial statements since it will not be paid with current available financial resources.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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, 2010, 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, 2010 but pertaining to the next fiscal year in the amount of \$356,887 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) taking 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) taking 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 all 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 Treasury Department (PRTD). 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, 2010**

NOTE J – SALES AND USE TAXES - Continued

The amount collected by the PRTD, (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 the municipal sales and use tax must file a tax return to the PRTD. The tax is due the 10th day of each month based on tax collected in the preceding month. A total of \$24,665 sales and use tax receivable from PRTD 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 10, net of uncollectible accounts (1%); \$65,551 and \$32,549 represent amounts of "Municipal Development Fund" and "Municipal Redemption Fund", respectively, collected on June by individuals, organizations and entities but paid by the PRTD subsequent to June 30. The amount of \$5,806 (related to Municipal Redemption Fund) is recorded as deferred revenue since it is not available as required by current standards.

NOTE K – INTERGOVERNMENTAL AND OTHER REVENUES

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

| | <u>Amount</u> |
|---|---------------------|
| Amount of municipal equalization fund and subsidy sent by CRIM | \$ 4,072,939 |
| Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA) | 1,436,615 |
| Reimbursement from Commonwealth Government - Christmas Bonus expenditures | 144,008 |
| Puerto Rico Department of Labor – Law No.52 | 99,116 |
| Other intergovernmental revenues | 407 |
| | <u>\$ 5,753,085</u> |

Other revenues in the General Fund include \$650,000 of proceeds from a legal case for fines imposed to a construction contractor and the reimbursement of costs incurred by the Municipality to complete the construction project.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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 public 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 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 could 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 would 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 be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the 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, 2010**

NOTE L – RETIREMENT PLAN - Continued

2. Funding policy

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> |
|---------------------------|--------------------|--------------------|
| 2010 | \$ 99,327 | \$ 201,391 |
| 2009 | \$ 101,305 | \$ 193,069 |
| 2008 | \$ 99,155 | \$ 92,912 |

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 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 2010, costs related to these post employment benefits amounted to \$63,204. 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 to \$44,013. Management believes that the summary of the future minimum rental commitments under non-cancelable operating leases with terms exceeding one year is not significant.

2. Construction

As of June 30, 2010 the Municipality has commitments of \$2,475,527 for design, construction, improvements or renovation of certain municipal facilities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE O – CONTINGENCIES

1. *Federal and Commonwealth Grants*

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

2. *Litigations*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. 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 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 reimburses GDB these costs plus interest expense. 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 and the project is completed. As of June 30, 2010 the amount of \$194,868 remains unpaid by PROMB to GDB. In addition, a principal balance of \$215,881 plus \$40,260 of interest is due and payable. The Municipality recorded a receivable from PROMB in the amount of \$194,868 and a fund liability to GDB for the same amount in the \$1,200,000 line of credit fund. The excess of principal and interest payable over the amount due from PROMB (\$61,274) is recorded as due to the Commonwealth Government in the general fund. It is the opinion of the Municipality that the amount due from PROMB (\$194,868) is fully collectible to finally pay the line of credit debt balance.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE P – FUND BALANCE DEFICITS

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

| <u>Funds</u> | <u>Amount</u> |
|---|-------------------|
| Major Funds: | |
| Community Development Block Grant Program | <u>\$ 225,333</u> |
| Other Governmental Funds: | |
| \$1,200,000 GDB Line of Credit | <u>\$ 194,816</u> |

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

NOTE Q – SUBSEQUENT EVENT

On September 1, 2010 the Municipality issued \$1,050,000 general obligation bonds through the Government Development Bank for Puerto Rico (GDB) for the acquisition of two parcels of land. The bonds will bear interest at variable rates (PRIME + 1.50%) and will be due on July 1, 2035.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|------------------|------------------|-------------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| Taxes: | | | | |
| Property taxes | \$ 1,726,603 | \$ 1,861,869 | \$ 1,861,871 | \$ 2 |
| Municipal license taxes | 505,000 | 505,000 | 532,330 | 27,330 |
| Sales and use taxes | 720,000 | 720,000 | 776,169 | 56,169 |
| Intergovernmental | 4,452,115 | 4,452,115 | 4,659,266 | 207,151 |
| Fees, fines and charges for services | 742,000 | 742,000 | 670,706 | (71,294) |
| Interest | 80,000 | 80,000 | 70,233 | (9,767) |
| Other | 36,750 | 686,750 | 722,051 | 35,301 |
| Total revenues | 8,262,468 | 9,047,734 | 9,292,626 | 244,892 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | 3,600,679 | 3,737,822 | 3,897,574 | (159,752) |
| Public works and sanitation | 2,351,339 | 2,525,471 | 2,498,093 | 27,378 |
| Public safety | 949,865 | 848,245 | 842,137 | 6,108 |
| Culture and recreation | 546,384 | 462,826 | 461,025 | 1,801 |
| Health | 339,565 | 320,368 | 320,368 | - |
| Welfare and community development | 288,886 | 269,252 | 266,375 | 2,877 |
| Total expenditures | 8,076,718 | 8,163,984 | 8,285,572 | (121,588) |
| Excess of revenues over expenditures | 185,750 | 883,750 | 1,007,054 | 123,304 |
| Other financing sources (uses): | | | | |
| Transfers in (out) | (185,750) | (883,750) | (883,408) | 342 |
| Total other financing sources (uses) | (185,750) | (883,750) | (883,408) | 342 |
| Excess of revenues over expenditures and other financing sources | \$ - | \$ - | \$ 123,646 | \$ 123,646 |

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
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTE B - BUDGET TO GAAP RECONCILIATION

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
JUNE 30, 2010

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

| | |
|---|--------------------------|
| Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis): | \$ 123,646 |
| Budget to GAAP differences: | |
| Entity differences: | |
| Non-budgeted funds recorded as revenues for financial reporting purposes: | 154,926 |
| Non-budgeted funds recorded as expenditures for financial reporting: | (563,441) |
| Non-budgeted transfers in: | 716,254 |
| Non-budgeted transfers out: | (83,180) |
| Basis of accounting differences: | |
| Revenues recorded for financial reporting purposes but not in budgetary basis: | 692,474 |
| Revenues recorded in budgetary basis purposes but not in financial reporting: | (196,003) |
| Expenditures recorded in budgetary basis but not for financial reporting purposes: | 64,426 |
| Expenditures recorded for financial reporting purposes but not in budgetary basis: | (430,826) |
| Timing differences: | |
| Current year encumbrances recorded as expenditures for budgetary reporting purposes: | 55,942 |
| Prior year encumbrances recorded as expenditures for financial reporting purposes: | (25,350) |
| Net change in fund balance (GAAP basis): | <u>\$ 508,868</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, 2010

| Line Item No. | Description | 14.871 |
|-------------------------|---|-------------------------|
| | | Housing Choice Vouchers |
| Balance Sheet | | |
| 111 | Cash - unrestricted | \$ 8,680 |
| 113 | Cash - other restricted | \$ 12,619 |
| 100 | Total cash | \$ 21,299 |
| 122 | Accounts receivable - HUD other projects | \$ 114 |
| 126.2 | Allowance for doubtful accounts - other | \$ - |
| 120 | Total receivables, net of allowance for doubtful accounts | \$ 114 |
| 150 | Total Current Assets | \$ 21,413 |
| 164 | Furniture, equipment and machinery - administration | \$ 2,009 |
| 166 | Accumulated depreciation | \$ (1,748) |
| 160 | Total capital assets, net of accumulated depreciation | \$ 261 |
| 180 | Total Non-current Assets | \$ 261 |
| 190 | Total Assets | \$ 21,674 |
| 312 | Accounts payable <= 90 days | \$ - |
| 322 | Accrued compensated absences - current portion | \$ 951 |
| 345 | Other current liabilities | \$ - |
| 347 | Inter-program - due to | \$ 2,199 |
| 310 | Total Current Liabilities | \$ 3,150 |
| 300 | Total Liabilities | \$ 3,150 |
| 508.1 | Invested in Capital Assets, Net of Related Debt | \$ 261 |
| 511.1 | Restricted Net Assets | \$ 12,619 |
| 512.1 | Unrestricted Net Assets | \$ 5,644 |
| 513 | Total Equity/Net Assets | \$ 18,524 |
| 600 | Total Liabilities and Equity/Net Assets | \$ 21,674 |
| Income Statement | | |
| 70600-010 | Housing assistance payments | \$ 114,723 |
| 70600-020 | Ongoing administrative fees earned | \$ 22,947 |
| 70600-070 | Admin fee calculation description | \$ - |
| 70600 | HUD PHA operating grants | \$ 137,670 |
| 71500 | Other revenue | \$ 7,707 |
| 700 | Total Revenue | \$ 145,377 |
| 91100 | Administrative salaries | \$ 14,259 |
| 91500 | Employee benefit contributions- administrative | \$ 5,172 |
| 91600 | Office expenses | \$ 555 |
| 91000 | Total Operating - Administrative | \$ 19,986 |
| 96200 | Other general expenses | \$ 1,252 |
| 96210 | Compensated absences | \$ 534 |
| 96000 | Total Other General Expenses | \$ 1,786 |
| 96900 | Total Operating Expenses | \$ 21,772 |
| 97000 | Excess Revenue Over Operating Expenses | \$ 123,605 |
| 97300-050 | All Other | \$ 117,061 |
| 97300 | Housing assistance payments | \$ 117,061 |
| 97350 | HAP Portability-in | \$ 6,105 |
| 97400 | Depreciation expense | \$ 46 |
| 900 | Total Expenses | \$ 144,984 |
| 10000 | Excess (Deficiency) of Revenue Over (Under) Expenses | \$ 393 |

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, 2010

| | | 14,871 |
|---------------|--|---|
| Line Item No. | Description | Housing Choice Vouchers |
| 11030 | Beginning equity | \$ 18,131 |
| 11770-001 | Administrative Fee Equity - Beginning Balance | \$ 3,174 |
| 11170-010 | Administrative Fee Revenue | \$ 22,947 |
| 11170-020 | Hard to House Fee Revenue | \$ - |
| 11170-021 | FSS Coordinator Grant | \$ - |
| 11170-030 | Audit Costs | \$ - |
| 11170-040 | Investment Income | \$ - |
| 11170-045 | Fraud Recovery Revenue | \$ - |
| 11170-050 | Other Revenue | \$ 7,707 |
| | | This amount corresponds to the administrative fees earned on the portability-in vouchers administered by the Municipality (\$1602) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 09- |
| 11170-051 | Comment For Other Revenue | 10 (\$6,105) |
| 11170-060 | Total Admin Fee Revenues | \$ 30,654 |
| 11170-080 | Total Operating Expenses | \$ 21,772 |
| 11170-090 | Depreciation | \$ 46 |
| 11170-095 | Housing Assistance Portability In | \$ 6,105 |
| 11170-110 | Total Expenses | \$ 27,923 |
| 11170-002 | Net Administrative Fee | \$ 2,731 |
| 11170-003 | Administrative Fee Equity - Ending Balance | \$ 5,905 |
| 11170 | Administrative Fee Equity | \$ 5,905 |
| 11180-001 | Housing Assistance Payments Equity - Beginning Balance | \$ 14,957 |
| 11180-010 | Housing Assistance Payments Revenues | \$ 114,723 |
| 11180-015 | Fraud Recovery Revenue | \$ - |
| 11180-020 | Other Revenue | \$ - |
| 11180-021 | Comment For Other Revenue | |
| 11180-025 | Investment Income | \$ - |
| 11180-030 | Total HAP Revenues | \$ 114,723 |
| 11180-080 | Housing Assistance Payments | \$ 117,061 |
| 11180-100 | Total Housing Assistance Payments Expenses | \$ 117,061 |
| 11180-002 | Net Housing Assistance Payments | \$ (2,338) |
| 11180-003 | Housing Assistance Payments Equity - Ending Balance | \$ 12,619 |
| 11180 | Housing Assistance Payments Equity | \$ 12,619 |
| 11190-210 | Total ACC HCV Units | 408 |
| 11190 | Unit Months Available | 408 |
| 11210 | Unit Months Leased | 379 |

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, 2010

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, 2010

| Federal Grantor/Pass Through Grantor/Program Title | Federal CFDA Number (note B) | Pass-Through Entity Identifying Number (note B) | Federal Expenditures (notes A and B) |
|--|---------------------------------------|--|--|
| U.S. Department of Agriculture | | | |
| Direct program: | | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | N/A | \$ 685,889 |
| Passed-through program from: | | | |
| <u>P.R. Department of Education</u> | | | |
| Child and Adult Care Food Program | 10.558 | CCC-029 | 16,548 |
| Subtotal U.S. Department of Agriculture | | | <u>702,437</u> |
| U.S. Department of Housing and Urban Development | | | |
| Direct program: | | | |
| Section 8 Housing Choice Vouchers Program | 14.871 | N/A | 137,670 |
| Passed-through programs from: | | | |
| <u>Office of Commissioner of Municipal Affairs:</u> | | | |
| CDBG - State-Administered Small Cities Program Cluster: | | | |
| Community Development Block Grant / State's Program (State-Administered Small Cities Program) | 14.228 | AB - 53, FD - 53 | 1,340,347 |
| ARRA - Community Development Block Grant / State's Program (State-Administered Small Cities Program) | 14.255 | AB - AR - 53 | 142,351 |
| Total CDBG - State-Administered Small Cities Program Cluster: | | | <u>1,482,698</u> |
| Subtotal U.S. Department of Housing and Urban Development | | | <u>1,620,368</u> |
| U.S. Department of Justice | | | |
| Direct program: | | | |
| ARRA - Public Safety Partnership and Community Policing Grants | 16.710 | N/A | 40,000 |
| U.S. Department of Labor | | | |
| Passed-through program from: | | | |
| <u>Northwest Consortium:</u> | | | |
| WIA Youth Activities | 17.259 | 16675 | 9,284 |
| U.S. Department of Energy | | | |
| Passed-through program from: | | | |
| <u>P.R. Energy Affairs Administration:</u> | | | |
| ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) | 81.128 | EECBG EAA-FOA-0000013 | 12,900 |
| U.S. Department of Health and Human Services | | | |
| Passed-through programs from: | | | |
| <u>P. R. Office of the Ombudsman for the Elderly:</u> | | | |
| Special Programs for the Aging_Tittle III Part D_ Disease Prevention and Health Promotion Services | 93.043 | 090297R2 | 2,963 |
| National Family Caregiver Support, Title III, Part E | 93.052 | 090192R2 | 13,258 |
| Aging Cluster: | | | |
| Special Programs for the Aging_Tittle III Part B_ Grants for Supportive Services and Senior Centers | 93.044 | 09092R2, 100267R2 | 30,224 |
| Special Programs for the Aging_Tittle III, Part C_Nutrition Services | 93.045 | 090193R2, 100268R2 | 101,203 |
| Nutrition Services Incentive Program | 93.053 | 090154R2, 100312R2 | 9,660 |
| Total Aging Cluster: | | | <u>141,087</u> |
| <u>P.R. Department of Family - Families and Children Administration:</u> | | | |
| Child Care and Development Block Grant | 93.575 | 2009-000143, 2010-000108 | 96,227 |
| Subtotal U.S. Department of Health and Human Services: | | | <u>253,535</u> |
| U.S. Department of Homeland Security | | | |
| Passed-through program from: | | | |
| <u>Puerto Rico Governor Office - (Office of Public Safety Affairs):</u> | | | |
| Law Enforcement Terrorism Prevention Program (LETPP) | 97.074 | 2005-GE-TS-4009 | 223 |
| Total Expenditures of Federal Awards | | | <u>\$ 2,638,747</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, 2010**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2010. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

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

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

| Description | Community Development Block Grant Program | Barrero Sanitary Sewer System | Other Governmental Funds |
|---------------|--|-------------------------------------|--------------------------------|
| 10.558 | \$ - | \$ - | \$ 16,548 |
| 10.760 | - | 685,889 | - |
| 14.228 | 1,340,347 | - | - |
| ARRA - 14.255 | 142,351 | - | - |
| 14.871 | - | - | 137,670 |
| ARRA – 16.710 | - | - | 40,000 |
| 17.259 | - | - | 9,284 |
| ARRA – 81.128 | - | - | 12,900 |
| 93.043 | - | - | 2,963 |
| 93.044 | - | - | 30,224 |
| 93.045 | - | - | 101,203 |
| 93.052 | - | - | 13,258 |
| 93.053 | - | - | 9,660 |
| 93.575 | - | - | 96,227 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2010**

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

| <u>Description</u> | <u>Community Development Block Grant Program</u> | <u>Barrero Sanitary Sewer System</u> | <u>Other Governmental Funds</u> |
|--|--|--|---|
| 97.074 | - | - | 223 |
| Total federal awards expenditures | 1,482,698 | 685,889 | 470,160 |
| Total non-federal awards expenditures | - | - | 2,343,851 |
| Total expenditures, fund statements | <u>\$ 1,482,698</u> | <u>\$ 685,889</u> | <u>\$ 2,814,011</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
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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 Rincon
Rincon, Puerto Rico**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Rincon (the Municipality), as of and for the year ended June 30, 2010, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated January 20, 2011. 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 opinions 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, and other matters, 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, 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.

Valdeir Garcia Marin & Martinez, LLP

San Juan, Puerto Rico
January 20, 2011

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to the original.

VALDES, GARCIA, MARIN & MARTINEZ, LLP

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

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Rincon
Rincon, Puerto Rico**

Compliance

We have audited the Municipality of Rincon's (the Municipality) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2010. 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. 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 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the compliance 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, Members of the Municipal Legislature, the Commonwealth of Puerto Rico, 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
January 20, 2011

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to the original.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2010

Section I - Summary of Audit Results

A. Summary of audit results:

Part I - Financial Statements

1. Type of audit report: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
2. Significant deficiencies Yes No
3. Significant deficiencies reported as material weaknesses Yes None reported
4. Material noncompliance disclosed Yes No

Part II - Federal Awards

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

5. Major programs

| CFDA Number(s) | Name of Federal Program or Cluster |
|----------------|--|
| 14.228 | Community Development Block Grant/State's Program |
| 14.255 | ARRA-Community Development Block Grant/State's Program |
| 10.760 | Water and Waste Disposal Systems for Rural Communities |

6. Dollar threshold used to distinguish 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, 2010

Section II - Financial Statements Findings

| | |
|---------|----------------------|
| Finding | No matters reported. |
|---------|----------------------|

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2010

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, 2010**

| Finding Number | Program | Noncompliance | Condition | Questioned Costs | Status and Corrective Action Plan |
|-----------------------|-------------------------------|---|---|-------------------------|--|
| 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. |

FORM SF-SAC (5-18-2010)

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

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates in 2010, 2011, or 2012

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

PART I GENERAL INFORMATION (To be completed by auditee, except for Items 6, 7, and 8)

1. Fiscal period ending date for this submission (Month Day Year: 06 / 30 / 2010)
2. Type of Circular A-133 audit (1 [X] Single audit, 2 [] Program-specific audit)
3. Audit period covered (1 [X] Annual, 2 [] Biennial, 3 [] Other - Months)

4. Auditee Identification Numbers
a. Primary Employer Identification Number (EIN): 66-0433529
d. Data Universal Numbering System (DUNS) Number: []-[]-[]
b. Are multiple EINs covered in this report? 1 [] Yes 2 [X] No
e. Are multiple DUNS covered in this report? 1 [] Yes 2 [X] No
c. If Part I, Item 4b = "Yes," complete Part I, Item 4c on the continuation sheet on Page 4.
f. If Part I, Item 4e = "Yes," complete Part I, Item 4f on the continuation sheet on Page 4.

5. AUDITEE INFORMATION
a. Auditee name: MUNICIPALITY OF RINCON
b. Auditee address (Number and street): P.O. BOX 97, City: RINCON, State: PR, ZIP + 4 Code: 00677
c. Auditee contact Name: FRANCISCO MERCADO-SILVA, Title: FINANCE DIRECTOR
d. Auditee contact telephone: (787) 823-2180
e. Auditee contact FAX: (787) 823-7899
f. Auditee contact E-mail: CPAFJM@YAHOO.COM

6. PRIMARY AUDITOR INFORMATION (To be completed by auditor)
a. Primary auditor name: VALDES, GARCIA, MARIN & MARTINEZ, LLP
b. Primary auditor address (Number and street): P.O. BOX 364831, City: SAN JUAN, State: PR, ZIP + 4 Code: 00935-4831
c. Primary auditor contact Name: LUCY MARTINEZ, Title: PARTNER
d. Primary auditor contact telephone: (787) 725-1600
e. Primary auditor contact FAX: (787) 721-2795
f. Primary auditor contact E-mail: LMARTINEZ@VGMCPA.COM

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

g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9g, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Auditee certification: NOT FOR SUBMISSION Date: 2/14/2011
Name of certifying official: FRANCISCO MERCADO-SILVA
Title of certifying official: FINANCE DIRECTOR

7a. Add Secondary auditor information? (Optional) 1 [] Yes 2 [X] No
b. If "Yes," complete Part I, Item 8 on the continuation sheet on page 5.
Auditor certification: ELECTRONICALLY CERTIFIED Date: 2/14/2011

25:1:18:08:2011
INTERVENTION
COMISION REGULACION

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FEB 17 AM 3:49

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report

Mark either: 1 Unqualified opinion **OR**
any combination of: 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

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

3. Is a significant deficiency disclosed? 1 Yes 2 No

4. Is a material weakness disclosed? 1 Yes 2 No

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

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 13) 1 Yes 2 No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .526(b)) \$ 300,000

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

4. Is a significant deficiency disclosed for any major program? (§ .510(a)(1)) 1 Yes 2 No

5. Is a material weakness disclosed for any major program? (§ .510(a)(1)) 1 Yes 2 No

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

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1 Yes 2 No

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

- | | | | |
|--|---|--|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> U.S. Department of State |
| 10 <input type="checkbox"/> Agriculture | 93 <input type="checkbox"/> Health and Human Services | 85 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 97 <input type="checkbox"/> Homeland Security | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 11 <input type="checkbox"/> Commerce | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation | 64 <input type="checkbox"/> Veterans Affairs |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute of Museum and Library Services | 07 <input type="checkbox"/> Office of National Drug Control Policy | 00 <input type="checkbox"/> None |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 59 <input type="checkbox"/> Small Business Administration | <input type="checkbox"/> Other - Specify: <input type="text"/> |
| 84 <input type="checkbox"/> Education | 16 <input type="checkbox"/> Justice | 96 <input type="checkbox"/> Social Security Administration | X <input type="text"/> |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | |
| 66 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corporation | | |
| | 43 <input type="checkbox"/> National Aeronautics and Space Administration | | |

PART III FEDERAL PROGRAMS - Continued

| 9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR | | | | 10. AUDIT FINDINGS | | | |
|---|--------------------------|--|-----------------|--------------------|-------------------|--------------------------------------|-----------------------------------|
| CFDA Number | Research and development | Name of Federal program | Amount expended | Direct award | Major program | Type(s) of compliance requirement(s) | Audit finding reference number(s) |
| Federal Agency Prefix ¹ | Extension ² | (e) | (f) | (g) | Major program (h) | (a) | (b) |
| (a) | (c) | (d) | | | (i) | | |
| 10760 | 1 Y 2 N | WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES | \$ 685,889.00 | 1 Y 2 N | 1 Y 2 N | U | N/A |
| 10558 | 1 Y 2 N | CHILD AND ADULT CARE PROGRAM | \$ 16,548.00 | 1 Y 2 N | 1 Y 2 N | U | N/A |
| 14871 | 1 Y 2 N | SECTION 8 HOUSING CHOICE VOUCHERS | \$ 137,670.00 | 1 Y 2 N | 1 Y 2 N | U | N/A |
| 14228 | 1 Y 2 N | COMMUNITY DEVELOPMENT BLOCK GRANT/STATES PROGRAM | \$ 1,340,347.00 | 1 Y 2 N | 1 Y 2 N | U | N/A |
| 14255 | 1 Y 2 N | ARRA COMMUNITY DEVELOPMENT BLOCK GRANT/STATES PROGRAM | \$ 142,351.00 | 1 Y 2 N | 1 Y 2 N | U | N/A |
| 16710 | 1 Y 2 N | ARRA-PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS | \$ 47,000.00 | 1 Y 2 N | 1 Y 2 N | U | N/A |
| 17259 | 1 Y 2 N | WIA YOUTH ACTIVITIES | \$ 9,284.00 | 1 Y 2 N | 1 Y 2 N | U | N/A |
| 81128 | 1 Y 2 N | ARRA-ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT PROGRAM | \$ 12,900.00 | 1 Y 2 N | 1 Y 2 N | U | N/A |
| 93043 | 1 Y 2 N | SPECIAL PROGRAMS FOR THE AGING TITLE III PART D | \$ 2,963.00 | 1 Y 2 N | 1 Y 2 N | U | N/A |
| 93052 | 1 Y 2 N | NATIONAL FAMILY CAREGIVER SUPPORT, TITLE III PART E | \$ 13,258.00 | 1 Y 2 N | 1 Y 2 N | U | N/A |
| TOTAL FEDERAL AWARDS EXPENDED | | | \$ 2,699,747.00 | | | | |

1 See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
 2 Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)
 3 American Recovery and Reinvestment Act of 2009 (ARRA).
 4 If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.
 5 Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.
 A. Activities allowed or unallowed
 B. Allowable costs/cost principles
 C. Cash management
 D. Davis - Bacon Act
 E. Eligibility
 F. Equipment and real property management
 G. Matching, level of effort, earmarking
 H. Period of availability of Federal funds
 I. Procurement and suspension and debarment
 J. Program income
 K. Real property acquisition and relocation assistance
 L. Reporting
 M. Subrecipient monitoring
 N. Special tests and provisions
 O. None
 P. Other
 6 N/A for NONE

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

| CFDA Number | | Research and development | | A R R A3 | | Name of Federal program | | Amount expended | | Direct award | | Major program | | 10. AUDIT FINDINGS | | |
|--------------------------------------|-------------|--------------------------|---|---|---|-------------------------|---|---|-----|--------------|-----|---------------|--|--------------------|--|--|
| Federal Agency Prefix1 | Extension 2 | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (a) | (b) | | | | | |
| 9 3 | .044 | | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | SPECIAL PROGRAMS FOR THE AGING_TITLE III PART B | \$ 30,224 .00 | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | O | N/A | | | | | |
| 9 3 | .045 | | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | SPECIAL PROGRAMS FOR THE AGING_TITLE III PART C | \$ 101,203 .00 | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | O | N/A | | | | | |
| 9 3 | .053 | | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | NUTRITION SERVICES INCENTIVE PROGRAM | \$ 9,660 .00 | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | O | N/A | | | | | |
| 9 3 | .575 | | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | CHILD CARE AND DEVELOPMENT BLOCK GRANT | \$ 96,227 .00 | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | O | N/A | | | | | |
| 9 7 | .074 | | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | LAW ENFORCEMENT TERRORISM PREVENTION PROGRAM | \$ 223 .00 | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | O | N/A | | | | | |
| | | | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | \$.00 | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | | | | | | | |
| | | | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | \$.00 | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | | | | | | | |
| | | | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | \$.00 | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | | | | | | | |
| | | | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | \$.00 | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | | | | | | | |
| | | | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | \$.00 | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | 1 <input type="checkbox"/> Y 2 <input checked="" type="checkbox"/> N | | | | | | | | |
| TOTAL FEDERAL AWARDS EXPENDED | | | | | | \$ 2,630,747 .00 | | | | | | | | | | |

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