



**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, 2011***



Mr. Carlos López-Bonilla

Mayor

Mr. Francisco Mercado-Silva, CPA

Finance Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-14
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances (deficit) - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities	20
Notes to the Basic Financial Statements	21-51
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund	52
Notes to Required Supplementary Information - Budgetary Comparison Schedule - General Fund	53-54
Supplementary Information:	
Financial Data Schedule	55-56
Notes to Supplementary Information - Financial Data Schedule	57
<u>SINGLE AUDIT SECTION</u>	
Supplementary Information:	
Schedule of Expenditures of Federal Awards	58
Notes to Schedule of Expenditures of Federal Awards	59-60
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	61-62
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	63-64
Schedule of Findings and Questioned Costs	65-67
Schedule of Status of Prior Years Audit Findings and Questioned Costs	68

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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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, 2011, 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, 2011, 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 March 2, 2012, 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 14 and 52 through 54 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 58 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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 55 through 57 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.

Valdés, García, Marín & Martínez, LLP

San Juan, Puerto Rico
March 2, 2012

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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, 2011**

The discussion and analysis of the Municipality of Rincon's financial performance provides an overall review of the Municipality's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the Municipality's financial performance as a whole; this section should be read in conjunction with the basic financial statements to obtain a better understanding of the financial position and the results of operations of the Municipality. Our analysis follows 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 2011 by \$34,091,742 (net assets).
- Revenues decreased by 17% while expenses decreased 4% when compared with fiscal year 2010.
- Net change in net assets amounted to \$1,558,111, a decrease of 55% 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:

- During the year 2011 the Municipality implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54"). Certain information from the year 2010 has been restated.
- A net change (decrease) in the fund balances of the Municipality's governmental funds of \$231,581 in the fiscal year 2011 resulted in reported ending fund balances of \$5,648,040. Approximately 25% of the total fund balances is unrestricted (committed, assigned or unassigned).
- For the fiscal year 2011, the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$600,854. The unassigned fund balance amounts to \$601,282 or 7% of total General Fund Expenditures.

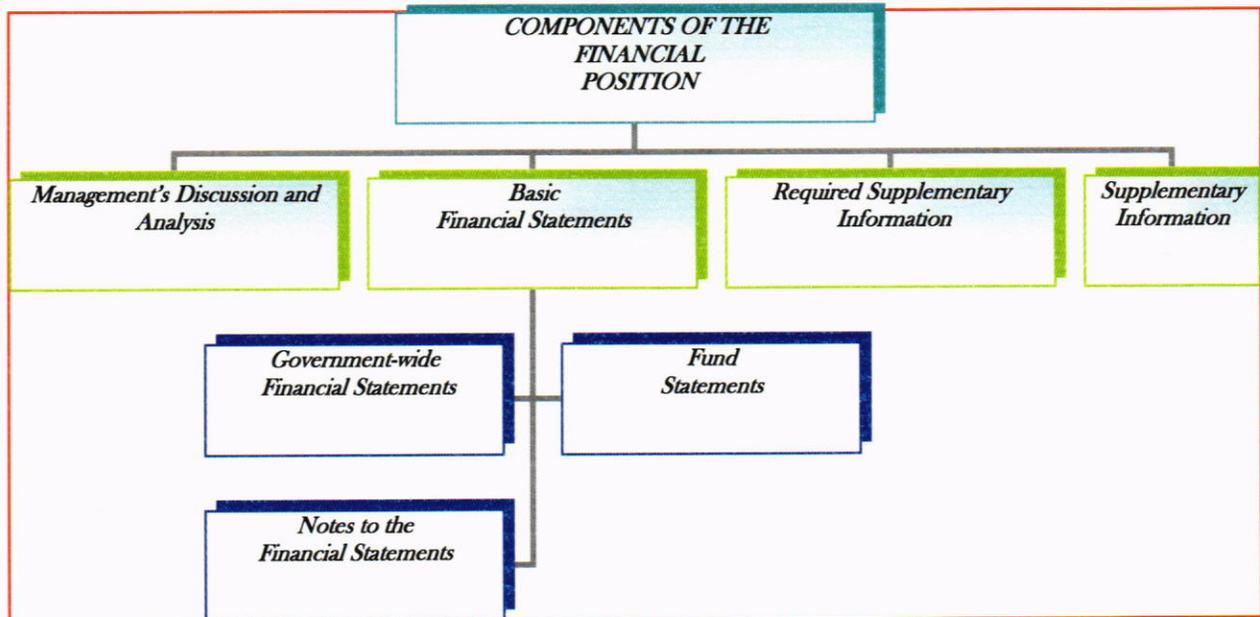
General Financial Highlights

- The investment in capital assets as of June 30, 2011 was \$36,520,997 (net of depreciation).
- Long-term debt increased to \$9,757,036 or approximately 6% with respect to the prior year.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$144,205.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

Basic Financial Statements

- **Government-Wide Financial Statements**

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the statement of net assets – presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over 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, 2011**

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 spendable 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, 2011**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

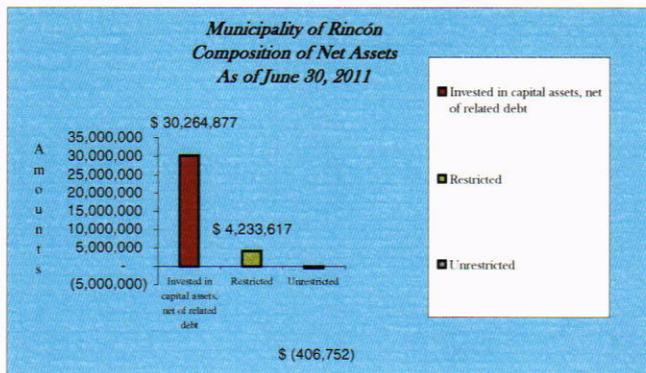
Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2011 and 2010:

TABLE 1

Summary Statement of Net Assets As of June 30,		
	Governmental Activities	
	2011	2010 (As Restated)
Assets		
Current and other assets	\$ 9,552,101	\$ 10,036,328
Capital assets	36,520,997	34,242,437
Total assets	\$ 46,073,098	\$ 44,278,765
Liabilities		
Current and other liabilities	\$ 2,224,320	\$ 2,527,557
Long-term liabilities	9,757,036	9,217,577
Total liabilities	11,981,356	11,745,134
Net assets		
Invested in capital assets, net of related debt	30,264,877	29,235,468
Restricted	4,233,617	4,440,951
Unrestricted (deficit)	(406,752)	(1,142,788)
Total net assets	\$ 34,091,742	\$ 32,533,631

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. At June 30, 2011, assets exceeded its liabilities by \$34,091,742, representing an increase of 5% with respect to year 2010 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, 2011**

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 2011, 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

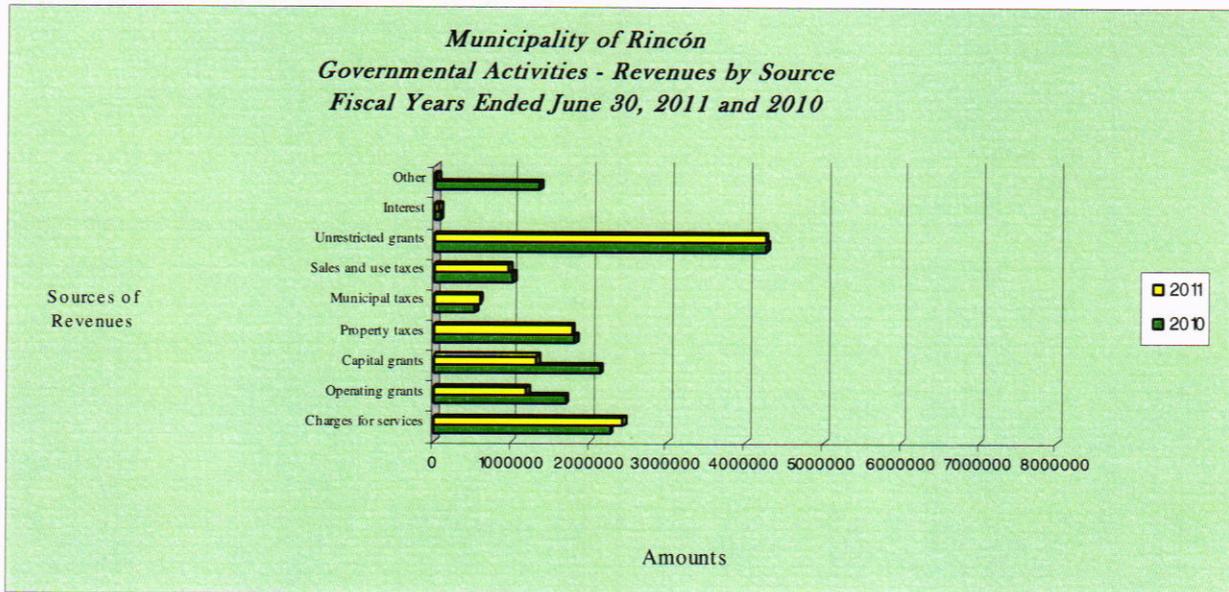
The following table summarizes the changes in net assets for the fiscal years ended 2011 and 2010:

TABLE 2

Summary of Changes in Net Assets As of June 30,		
	Governmental Activities	
	2011	2010 (As Restated)
Program revenues:		
Fees, fines and charges for services	\$ 2,434,385	\$ 2,260,087
Operating grants and contributions	1,188,396	1,688,000
Capital grants and contributions	1,318,778	2,135,841
General revenues:		
Property taxes	1,964,137	1,812,048
Municipal license taxes	587,529	519,974
Sales and use taxes	963,407	1,014,435
Grants and contributions not restricted to specific programs	4,245,213	4,259,480
Interest	60,798	70,657
Other	35,897	1,343,531
Total revenues	12,798,540	15,104,053
Expenses:		
General government	4,651,850	5,088,927
Public works and sanitation	3,264,909	3,529,700
Public safety	1,022,764	930,145
Culture and recreation	781,568	720,482
Health	320,367	320,367
Housing, welfare and community development	895,142	815,939
Education	12,704	12,462
Interest on long term debt	291,125	259,375
Total expenses	11,240,429	11,677,397
Change in net assets	1,558,111	3,426,656
Net assets-beginning of year, as restated	32,533,631	29,106,975
Net assets-end of year	\$ 34,091,742	\$ 32,533,631

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

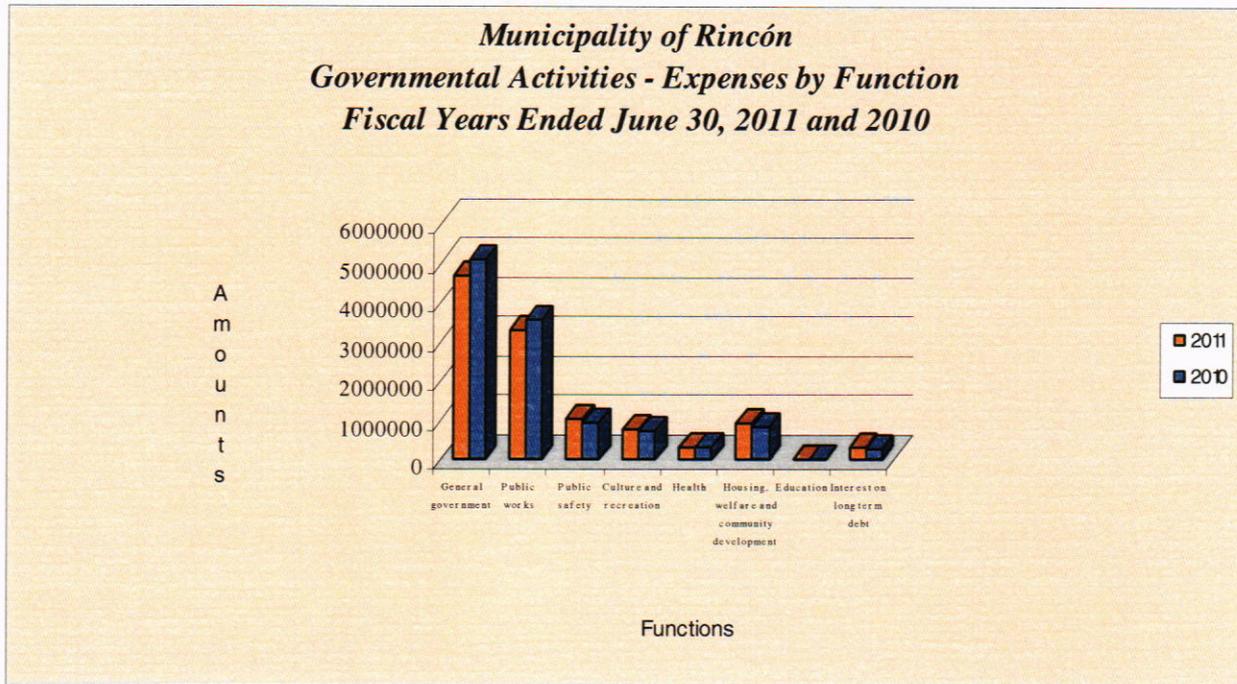
FIGURE 1



Approximately 34% of the Municipality's revenues came from unrestricted grants, 20% from operating and capital grants, 19% from fees, fines, and charges for services, 14% from property taxes, 8% from sales and use taxes and 5% from municipal license taxes. Revenues decreased 17% in comparison with year 2010. The most significant change is a decrease in other revenues due to non recurrent revenues recognized in year 2010 from capital assets received in donation and proceeds from a legal case awarded to the Municipality. There were also significant decreases of 30% and 38% in operating grants and capital grants and contributions, respectively due mainly to a decrease in grant funds (PINI Funds and CDBG) awarded by the Commonwealth and Federal Government with respect to the year 2010. There was an 8% increase in fees, fines and charges for services caused mainly by a \$150,000 fine imposed to a contractor for non compliance with contract terms.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FIGURE 2



The Municipality's expenses cover a range of services. The largest expenses are general government representing approximately 41%, public works and sanitation with 29% and public safety with 9%. Program revenues of the Municipality covered approximately 44% of total expenses.

Total expenses decreased 4% in comparison with the previous year. This includes a decrease of 9% in general government mostly caused by a reduction in payroll expense from transitory employees and slight reductions in administrative expenses. This also includes a decrease of 8% in public works and sanitation caused by a decrease in the depreciation expense of machinery and equipment assigned to this department, a decrease in \$705,000 bond issuance fund expenses and a general decrease in repairs and maintenance expenses. These decreases were partially offset by a (1) 12% increase in interest expense due to an increase in general long term debt issued during the year, (2) a 10% increase in public safety due to the use of additional federal funds received for such purpose, (3) a 10% increase in housing, welfare and community development due to an increase in expenditures of funds to benefit the population of elderly people and additional funds for homeless prevention and rapid re-housing expended during the year.

As noted previously the significant decrease in revenues, combined with a minor decrease in expenses, resulted in a reduced increase in net assets of approximately 55% when compared with the increase in net assets reported in the fiscal year 2010 statement of activities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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

TABLE 3

<i>Net Cost of Municipality's Governmental Activities Fiscal years ended June 30,</i>					
Functions/Programs	Total Cost of Services		Net Cost of Services		
	2011	2010 (As Restated)	2011	2010 (As Restated)	
General government	\$ 4,651,850	\$ 5,088,927	\$ (2,185,659)	\$ (2,641,608)	
Public works and sanitation	3,264,909	3,529,700	(1,954,795)	(531,409)	
Public safety	1,022,764	930,145	(749,203)	(849,922)	
Culture and recreation	781,568	720,482	(452,161)	(667,449)	
Housing, welfare and community development	895,142	815,939	(341,762)	(320,161)	
Other	624,196	592,204	(615,290)	(582,920)	
	<u>\$ 11,240,429</u>	<u>\$ 11,677,397</u>	<u>\$ (6,298,870)</u>	<u>\$ (5,593,469)</u>	

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$2,434,385) and other governments and organizations that subsidized certain programs with grants and contributions (\$2,507,174). The \$(6,298,870) net cost of services was fully covered by other general revenues including property, municipal license taxes and sales and use taxes.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year.

During the year 2011 the Municipality implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54"). This statement establishes accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. Previously classified reserved and unreserved fund balances are now reported as nonspendable, restricted, committed, assigned and unassigned. As a result of the implementation a special fund (Law No. 52 Fund) was reclassified from the general fund to other governmental funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

For the fiscal year ended June 30, 2011, the governmental funds reported ending fund balances of \$5,648,040, a net decrease of \$231,581 in comparison with the prior year. This decrease was caused primarily by increases of \$600,854, \$219,744 and \$130,307 in the General Fund, Debt Service Fund and the Community Development Block Grant Program Fund, respectively, with decreases of \$270,525, \$334,750 and \$577,211 in the Commonwealth Legislative Resolutions fund, the \$1,428,000-Loan Issuance Fund and the Other Governmental Funds, respectively. Of the total fund balances, \$1,399,551 (or 25%) constitutes unrestricted fund balance, which is comprised of funds committed by the Mayor and the Municipal Legislature, funds assigned by the Mayor or the Finance Director as well as unassigned funds. The remainder of the fund balances is restricted to indicate that it is not available for new spending. The unassigned fund balance represents 4% of total fund balances.

The general fund is the operating fund of the Municipality. The fund balance of the general fund represents approximately 33% of total ending fund balances. 7%, or \$128,548 of the fund balance of the general fund is restricted mainly to finance the maintenance of the sunset village facilities as required by a grant agreement. Committed and assigned portions of the unrestricted fund balance of the general fund are distributed as follows:

- \$352,947 committed for general public works and sanitation
- \$366,994 committed for general government and other purposes
- \$58,679 assigned for encumbrances
- \$203,429 assigned for general public works and sanitation
- \$150,000 assigned for capital projects
- \$29,290 assigned for general government and other purposes

The remainder of the unrestricted fund balance (\$601,282) is unassigned fund balance, which represents 32% of the total fund balance of the general fund and 7% of total general fund expenditures.

For the year ended June 30, 2011, the fund balance of the general fund increased by a net change of \$600,854 when compared with the prior year. Of this net change, an increase of \$499,120 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 2010-2011 presented an increase of 6% with respect to the prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year 2011, budget expenditures were decreased by \$217,600 while transfers out were increased by \$217,600. Actual revenues fall short from the revised budgeted revenues by \$64,713 (net). The most significant variances were a negative variance of \$264,325 in property taxes revenues and positive variances of \$79,766, \$80,967 and \$36,871 in municipal license taxes revenues, intergovernmental revenues and fees, fines and charges for services revenues, respectively. The Municipality also reported a positive variance of \$208,900 between revised budgeted appropriations and actual expenditures. Actual revenues exceeded actual expenditures by \$144,205.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$36,520,997 (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 7% over the prior year.

TABLE 4

Capital Assets, net As of June 30,		
	Governmental Activities	
	2011	2010
Non-depreciable assets:		
Land	\$ 7,739,918	\$ 5,961,404
Construction in progress	6,089,664	6,676,857
Depreciable assets (net):		
Land improvements	809,455	568,343
Buildings and buildings improvements	14,518,246	13,264,803
Infrastructure	5,604,243	5,670,723
Vehicles, machinery and equipment	1,759,471	2,100,307
Total	\$ 36,520,997	\$ 34,242,437

The Municipality's major capital projects that were still in construction as of June 30, 2011 are as follows:

- Barrero Sanitary Sewer System - \$2,612,291
- Construction of "Ventana al Mar" - \$1,547,960
- Construction of "Multi-use" Center at Union Street - \$361,472
- Construction of recreational facilities on Barrero ward - \$621,806
- Rio Grande Residential Development - \$281,061
- Improvements to Rio Grande basketball court - \$196,612

During the year, equipment for a total amount of \$116,664 was placed in use including two vehicles for a total cost of \$73,492.

The Municipality's fiscal year 2011-2012 capital budget calls for a significant amount of projects including the reopening of the market place (first phase of "Ventana al Mar" project) with an estimated total cost of \$1,700,000; the conclusion of Barrero sanitary sewer with an estimated total cost of \$2,700,000, the conclusion of the construction of recreational facilities in Barrero ward with an estimated total cost of \$830,000, the continuance of the construction of the Multi-use Center on Union Street, with an estimated total cost of \$855,000 and the conclusion of the improvements to Rio Grande basketball court, with an estimated total cost of \$250,000. These projects will be financed through Federal and Commonwealth grants, funds from the Commonwealth Legislature, general obligation bonds and Municipal funds. More detailed information about the Municipality's capital assets is presented in Note F to the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

Long-term debt

At year-end, the Municipality had \$7,344,000 in general and special bonds and notes, an increase of 7% with respect to the prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2011 and 2010:

TABLE 5

Outstanding Long-term Debt		
Fiscal years ended June 30,		
	Governmental Activities	
	2011	2010
General and special obligation bonds and notes	\$ 7,344,000	\$ 6,864,000
Note payable to CRIM – Law No. 42	409,750	419,083
Note payable to CRIM – LIMS	11,244	32,766
Note payable to CRIM – financing of delinquent accounts	43,228	45,287
Line of credit - GDB	215,881	215,881
Payable to PREPA	380,502	365,241
Compensated absences	1,197,090	1,085,684
Christmas bonus payable	151,666	164,716
Payable to CRIM from property tax advances	3,675	24,919
Total	\$ 9,757,036	\$ 9,217,577

The Municipality reported a net increase in the other long-term debts of only \$59,459. This increase was mostly affected by the net effect from the increase of \$111,406 in the debt for Compensated Absences, an increase of \$15,261 in the debt with P.R. Electric Power Authority (PREPA), and decreases of \$21,522, \$21,244 and \$13,050 in the LIMS, Property Tax Advances, and Christmas Bonus debts, respectively. More detailed information about the Municipality's long-term liabilities is presented in Note H of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's officials considered certain factors when establishing the fiscal year 2011-2012 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 14.5%, which compares with the Commonwealth rate of 14.9%.

For fiscal year 2011-2012 the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are \$8,800,000, representing an increase of 0.1% with respect to prior 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 2011-2012 fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

In addition to the general fund budget, the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works. 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 year. In addition, revenues from sales and use taxes are expected to increase significantly the income generated by the Municipality.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
STATEMENT OF NET ASSETS
JUNE 30, 2011**

ASSETS	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 2,922,855
Receivables, net:	
Municipal license taxes	2,763
Due from:	
Commonwealth Government (note C)	1,006,712
Federal Government (note C)	433,557
Restricted assets:	
Cash and cash equivalents	2,154,007
Cash with fiscal agent	2,867,064
Deferred bond issuance costs, net of accumulated amortization of \$25,443	31,543
Other assets (note G)	133,600
Capital assets (note F):	
Land and construction in progress	13,829,582
Other capital assets, net	22,691,415
Total capital assets, net	<u>36,520,997</u>
Total assets	<u><u>\$ 46,073,098</u></u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 1,117,504
Interest payable	126,043
Due to:	
Commonwealth Government	154,832
Deferred revenues:	
Municipal License taxes	321,424
Intergovernmental-Commonwealth agencies	348,183
Intergovernmental-Federal grants	156,334
Long-term liabilities (note H):	
Due within one year	1,065,299
Due in more than one year	8,691,737
Total liabilities	<u>11,981,356</u>
NET ASSETS	
Invested in capital assets, net of related debt	30,264,877
Restricted for:	
Debt service	1,855,536
Capital Projects	2,178,665
Other specified purposes	199,416
Unrestricted (deficit)	(406,752)
Total net assets	<u><u>\$ 34,091,742</u></u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
BALANCE SHEET -
GOVERNMENTAL FUNDS
JUNE 30, 2011

	Major Funds							Total Governmental Funds
	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant Program	Rural Development Corporation-Marine Facilities	Barrera Sanitary Sewer System	\$1,428,000 Loan Issuance	
Assets								
Cash and cash equivalents	\$ 2,922,855	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables, net:								
License taxes	2,763	-	-	-	-	-	-	-
Due from:								
Commonwealth Government	552,387	-	37,918	-	-	-	-	416,407
Federal Government	-	-	-	289,180	-	-	-	144,377
Other funds (note D)	265,560	-	679	-	-	-	-	266,239
Advances to other funds (note D)	-	570,138	-	-	-	-	-	570,138
Restricted assets:								
Cash and cash equivalents	-	679,145	-	2	320,714	456,632	-	697,514
Cash with fiscal agent	-	1,249,283	1,942,926	-	320,714	456,632	557,305	366,833
Total assets	\$ 3,743,565	\$ 1,249,283	\$ 1,981,523	\$ 289,182	\$ 320,714	\$ 456,632	\$ 557,305	\$ 1,625,131
Liabilities and Fund Balances (deficit)								
Liabilities:								
Accounts payable and accrued liabilities	\$ 288,085	\$ 14,201	\$ -	\$ 226,641	\$ -	\$ 388,394	\$ 12,210	\$ 207,973
Matured bonds and interest payable	-	-	546,894	-	-	-	-	-
Due to:								
Commonwealth Government	175,845	-	-	-	-	-	-	194,868
Other funds	679	-	-	62,541	-	-	-	203,019
Advances from other funds	570,138	-	-	-	-	-	-	-
Deferred revenues (notes I and K):								
Municipal License taxes	321,424	-	-	-	-	-	-	-
Intergovernmental - Commonwealth Government	496,225	-	5,405	95,026	320,714	88,238	-	308,679
Intergovernmental - Federal grants	-	-	-	384,208	320,714	456,632	12,210	68,096
Total liabilities	1,852,396	14,201	552,299	384,208	320,714	456,632	12,210	982,635
Fund Balances (deficit):								
Nonspendable	-	570,138	-	-	-	-	-	-
Restricted	128,548	664,944	1,429,224	-	-	-	545,095	910,540
Committed	719,941	-	-	-	-	-	-	-
Assigned	441,398	-	-	-	-	-	-	-
Unassigned	601,282	-	-	(95,026)	-	-	-	(288,044)
Total fund balances (deficit)	1,891,169	1,235,082	1,429,224	(95,026)	-	-	545,095	642,496
Total liabilities and fund balances (deficit)	\$ 3,743,565	\$ 1,249,283	\$ 1,981,523	\$ 289,182	\$ 320,714	\$ 456,632	\$ 557,305	\$ 1,625,131

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, 2011**

Total fund balances - governmental funds		\$ 5,648,040
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet		36,520,997
Other assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds:		
Deferred charges - bond issuance costs	\$ 31,543	
Other assets - deposit for acquisition of parcel of land	<u>133,600</u>	165,143
Other assets are not available to pay current-period expenditures and, therefore, are deferred in the funds:		
Due from Commonwealth Government:		
Christmas bonus reimbursement	75,833	
Property taxes- General Fund	10,021	
Sales and use tax- General Fund	29,869	
Sales and use tax- Debt Service Fund	5,405	
Line of Credit (Office of Management and Budget)	194,868	
P.R. Electric Power Authority (PREPA)	380,502	
P.R. Office of the Ombudsman for the Elderly (OPEA)	13,114	
P.R. Department of Transportation and Public Works (DTOP)	<u>73,228</u>	782,840
Due from Federal Government:		
Federal grant - CDBG		95,026
Interest liabilities are not due and payable in the current period period and, therefore, are not reported in the funds		(16,149)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
General obligation bonds and notes	(6,907,000)	
Note payable to CRIM-Law No. 42	(409,750)	
Note payable to CRIM-LIMS	(11,244)	
Note payable to CRIM-financing of delinquent accounts	(43,228)	
Payable to CRIM - property tax advances	(3,675)	
Compensated absences	(1,197,090)	
Christmas Bonus	(151,666)	
Debt payable to P.R. Electric Power Authority	<u>(380,502)</u>	<u>(9,104,155)</u>
Net assets of governmental activities		<u>\$ 34,091,742</u>

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, 2011

	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 J)	\$ 1,268,324	\$ -	\$ 685,792	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,954,116
Municipal license taxes (note K)	587,529	-	-	-	-	-	-	-	-	-	-	587,529
Sales and use taxes (note L)	693,367	-	240,572	-	-	-	-	-	-	-	-	933,939
Intergovernmental:												
Commonwealth Government (note M)	5,703,191	50,000	-	-	-	-	-	-	-	-	-	6,188,389
Federal Government	841,784	-	-	951,217	-	416,275	-	435,198	-	-	-	2,143,140
Fees, fines and charges for services	33,800	-	-	-	-	-	-	150,000	-	-	-	991,784
Interest	35,678	-	1,537	-	-	-	-	14,769	-	-	-	60,798
Other	-	-	-	-	-	-	-	-	-	-	-	35,678
Total revenues	9,163,673	50,000	927,901	951,217	-	416,275	10,692	1,375,615	-	10,692	-	12,895,373
Expenditures:												
Current:												
General government	4,010,714	-	-	90,154	-	-	-	113,618	-	-	-	4,214,486
Public works and sanitation	2,492,487	41,190	-	2,346	-	-	-	49,998	-	-	-	2,587,471
Public Safety	818,088	-	-	-	-	1,450	-	92,016	-	-	-	910,104
Culture and recreation	455,469	-	-	-	-	-	-	-	-	-	-	455,469
Health	320,367	-	-	-	-	-	-	-	-	-	-	320,367
Welfare and community development	287,457	1,418	-	153,836	-	-	-	503,265	-	-	-	945,976
Education	-	-	-	-	-	-	-	8,906	-	-	-	8,906
Capital outlays	37,011	277,917	-	574,574	-	413,775	334,750	2,030,370	-	-	-	3,668,397
Debt Service:												
Principal	-	-	490,000	-	-	-	-	-	-	-	-	490,000
Interest	-	-	258,996	-	-	-	-	-	-	-	-	258,996
Bond issuance costs	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	8,421,593	320,525	748,996	820,910	-	415,225	334,750	2,803,590	5,417	334,750	5,417	13,865,589
Excess (deficiency) of revenues over expenditures	742,080	(270,525)	178,905	130,307	-	1,050	(324,058)	(1,427,975)	-	(324,058)	(970,216)	(970,216)
Other financing sources (uses):												
Proceeds from general obligation bonds	-	-	-	-	-	-	-	1,050,000	-	-	-	1,050,000
Payment of PREPA debt	(311,365)	-	-	-	-	-	-	-	-	-	-	(311,365)
Transfers in	211,972	-	41,833	-	-	-	-	1,050	-	-	-	254,855
Transfers (out)	(41,833)	-	(994)	-	-	(1,050)	(10,692)	(200,286)	-	(10,692)	-	(254,855)
Total other financing resources (uses)	(141,226)	-	40,839	-	-	(1,050)	(10,692)	850,764	-	(10,692)	-	738,635
Net change in fund balances (deficit)	600,854	(270,525)	219,744	130,307	-	-	(334,750)	(577,211)	-	(334,750)	(231,581)	(231,581)
Fund balances (deficit) at beginning of year, as restated (note R)	1,290,315	1,505,607	1,209,480	(225,333)	-	-	879,845	1,219,707	-	879,845	5,879,621	5,879,621
Fund balances (deficit) at end of year	\$ 1,891,169	\$ 1,235,082	\$ 1,429,224	\$ (95,026)	\$ -	\$ -	\$ 545,095	\$ 642,496	\$ -	\$ 545,095	\$ 5,648,040	\$ 5,648,040

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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, 2011

Net change in fund balances (deficit) - total governmental funds: **\$ (231,581)**

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

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

Expenditures for capital assets	\$ 3,535,016	
Less: current year depreciation	<u>(1,251,457)</u>	2,283,559

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	5,417	
Amortization of bond issuance costs	<u>(3,356)</u>	2,061

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

Other asset - deposit for land acquisition		133,600
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Christmas bonus reimbursement	75,833	
Property Taxes-General Fund	10,021	
Sales and use tax-General Fund	29,869	
Sales and use tax-Debt Service Fund	5,405	
P.R. Electric Power Authority (PREPA)	217,751	
P.R. Department of Transportation and Public Works (DTOP)	68,157	
Federal grant - CDBG	<u>95,026</u>	502,062

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

Christmas bonus reimbursement-prior year	82,358	
Sales and use tax-Debt Service Fund	5,806	
P.R. Department of Education	24,113	
P.R. Electric Power Authority (PREPA)	202,490	
Federal grant - CDBG	<u>193,740</u>	(508,507)

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

(1,050,000)

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

(4,999)

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

Matured bonds principal payments (net change)		(80,000)
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Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets:

General obligation bonds and notes	570,000	
Other long term liabilities	<u>626,088</u>	1,196,088

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	(207,030)	
Christmas bonus	(151,666)	
Debt payment to P.R. Electric Power Authority	(326,626)	
Accrued interest (net change)	1,375	
Other	<u>(225)</u>	(684,172)

Change in net assets of governmental activities **\$ 1,558,111**

The accompanying notes are an integral part of these statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements of 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 units' balances and transactions in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011**

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 focuses 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, 2011**

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 statement users (for Rural Development Corporation - Marine Facilities, Barrero Sanitary Sewer System 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 is used to account for and report all financial resources not accounted for and reported in another fund.

Commonwealth Legislature Resolutions Fund: This fund is used to account for and report 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 and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

\$1,428,000 Loan Issuance Fund: This fund is used to account for and report the 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 as 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, 2011**

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 balance beyond immediate needs is 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").

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds 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 federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

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 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.

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:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

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

12. Fund balances and Net Assets

During the year 2011 the Municipality implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54"). This statement establishes accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. As a result of the implementation a special fund was reclassified from the general fund to other governmental funds. The classifications are as follows:

- | | |
|---------------|--|
| Nonspendable: | Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. |
| Restricted: | Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation. |
| Committed: | Amounts that can be used only for the specific purposes imposed through formal action (ordinance or resolution) by consent of both the Mayor and the Municipal Legislature, the highest level of decision-making authority for the Municipality. Those committed amounts cannot be used for any other purposes unless the highest level of decision-making authority for the Municipality removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period. |
| Assigned: | Amounts intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent can be expressed by the Mayor or the Finance Director, the official to which the Mayor has also delegated the authority to assign amounts to be used for specific purposes. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Unassigned: Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

The Municipality applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.

Restricted net assets: Represent net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation.

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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Insurance policies costs are allocated by PRDT among all the municipalities of Puerto Rico. Payment of the Municipality's insurance premiums is deducted monthly from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). Workers compensation insurance is also deducted from the monthly advances by 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.

16. Future adoption of accounting pronouncements

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

<u>Statement</u>	<u>To be adopted in fiscal year ended,</u>
57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	June 30, 2012
60 Accounting and Financial Reporting for Service Concession Arrangements	June 30, 2013
61 The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34	June 30, 2013
62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	June 30, 2013
63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	June 30, 2013
64 Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53	June 30, 2012

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE B- DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be recovered. The Municipality maintains cash deposits in commercial, governmental banks and a credit union located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks and credit unions must be fully collateralized for the amount deposited in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC) or the "Corporación para la Supervisión y Seguro de Cooperativas de Puerto Rico" ("COSSEC"), respectively. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name.

At year-end the Municipality's bank balance of deposits in commercial banks amounting to \$4,360,157 and deposits in a credit union amounting to \$1,000,000 were covered by the FDIC, COSSEC or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At year-end the Municipality's bank balance in governmental banks amounts to \$2,842,618.

NOTE C- DUE FROM GOVERNMENTAL ENTITIES

Amounts due from governmental entities as of June 30, 2011 follows:

	Commonwealth Government	Federal Government
<u>Major fund - General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 380,502	\$ -
Municipal Revenue Collection Center (CRIM)- property taxes and intergovernmental subsidy (general fund)	10,021	-
P.R. Department of Treasury – Christmas bonus reimbursement	76,013	-
P.R. Department of Treasury – sales and use taxes-1% and Municipal Development fund	85,851	-
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes	9,531	-
P.R. Department of Treasury – sales and use taxes-Municipal Redemption Fund	28,387	-
<u>Major fund – CDBG fund:</u>		
Office of Commissioner of Municipal Affairs – CDBG	-	289,180
<u>Other governmental funds:</u>		
P.R. Department of Labor – Law No. 52	53,152	-
\$1,200,000 Line of credit (Office of Management and Budget)	194,868	-
P.R Department of Transportation	168,387	-
P.R. Governor Office (Office of Public Safety Affairs) – State Homeland Security Grant Program	-	47,753
P.R. Energy Affairs Administration – Energy Efficiency and Conservation Block Grant	-	14,130

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE C- DUE FROM GOVERNMENTAL ENTITIES - Continued

	Commonwealth Government	Federal Government
P.R. Department of Family – Families and Children Administration – Child Care and Development Block Grant	-	17,788
P.R. Office of the Ombudsman for the Elderly	-	64,476
Other	-	230
	\$ 1,006,712	\$ 433,557

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 I.

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:

Receivable Fund	Payable Funds	Amount
General Fund	Major Funds:	
	CDBG	\$ 62,541
	Other Governmental Funds:	
	Child Care	25,195
	P.R. Department of Labor – Law No. 52	53,370
	P. R. Office of the Ombudsman for the Elderly (OPEA)	61,576
	State Homeland Security Grant Program	47,753
	Other	15,125
Debt Service Fund	Major Funds:	
	General Fund	679
Total:		\$ 266,239

2. Advances to other funds

Advances to other funds in the amount of \$570,138 represent advances made by the Commonwealth Legislative Grants Fund to the general fund for payment of payrolls, payroll taxes and other operational expenditures in previous periods not reimbursed as of fiscal year-end. The general fund reimbursed \$30,595 during fiscal year 2010-2011.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE E- FUND BALANCE

1. Fund balance classifications

The governmental fund balance classifications and amounts at June 30, 2011 are shown in the following table:

	General Fund	Commonwealth Legislative Resolutions	Debt Service	Community Development Block Grant	\$1,428,000 Loan Issuance	Other Governmental Funds	Total
<i>Nonspendable:</i>							
Advances to other funds	\$ -	\$ 570,138	\$ -	\$ -	\$ -	\$ -	\$ 570,138
	-	570,138	-	-	-	-	570,138
<i>Restricted:</i>							
General public works and sanitation	123,038	-	-	-	-	371,063	494,101
Sports, culture and recreation	-	-	-	-	-	195	195
Housing, welfare and community development	-	-	-	-	-	62,327	62,327
Debt Service	-	-	1,429,224	-	-	-	1,429,224
Capital projects	5,510	664,944	-	-	545,095	476,213	1,691,762
General Government and other purposes	-	-	-	-	-	742	742
	128,548	664,944	1,429,224	-	545,095	910,540	3,678,351
<i>Committed:</i>							
General public works and sanitation	352,947	-	-	-	-	-	352,947
General government and other purposes	366,994	-	-	-	-	-	366,994
	719,941	-	-	-	-	-	719,941
<i>Assigned:</i>							
Encumbrances	58,679	-	-	-	-	-	58,679
General public works and sanitation	203,429	-	-	-	-	-	203,429
Capital projects	150,000	-	-	-	-	-	150,000
General government and other purposes	29,290	-	-	-	-	-	29,290
	441,398	-	-	-	-	-	441,398
Unassigned	601,262	-	-	(95,026)	-	(268,044)	238,212
	\$ 1,891,169	\$ 1,235,082	\$ 1,429,224	\$ (95,026)	\$ 545,095	\$ 642,496	\$ 5,648,040

2. Fund balance deficits

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

Funds	Fund balance - unassigned amount
Major Funds:	
Community Development Block Grant Program	\$ 95,026

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE E- FUND BALANCE - Continued

Funds	Fund balance - unassigned amount
Other Governmental Funds:	
\$1,200,000 GDB Line of Credit	\$ 194,816
Improvements to Recreational Facilities – Barrero Community	60,418
Maintenance of Roads – DTOP 3101	12,810
Total	<u>\$ 268,044</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 F- CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,961,404	\$ 1,778,514	\$ -	\$ 7,739,918
Construction in progress	6,676,857	1,639,839	2,227,032	6,089,664
Total capital assets not being depreciated:	<u>12,638,261</u>	<u>3,418,353</u>	<u>2,227,032</u>	<u>13,829,582</u>
Capital assets, being depreciated:				
Land improvements	637,487	287,295	-	924,782
Buildings and building improvements	17,380,905	1,654,450	-	19,035,355
Infrastructure	9,505,770	285,287	-	9,791,057
Vehicles, machinery and equipment	7,205,350	116,664	49,992	7,272,022
Total capital assets being depreciated	<u>34,729,512</u>	<u>2,343,696</u>	<u>49,992</u>	<u>37,023,216</u>
Less accumulated depreciation for:				
Land improvements	69,144	46,183	-	115,327
Buildings and building improvements	4,116,102	401,007	-	4,517,109
Infrastructure	3,835,047	351,767	-	4,186,814
Vehicles, machinery and equipment	5,105,043	452,500	44,992	5,512,551
Total accumulated depreciation	<u>13,125,336</u>	<u>1,251,457</u>	<u>44,992</u>	<u>14,331,801</u>
Total capital assets being depreciated, net	<u>21,604,176</u>	<u>1,092,239</u>	<u>5,000</u>	<u>22,691,415</u>
Governmental activities capital assets, net	<u>\$ 34,242,437</u>	<u>\$ 4,510,592</u>	<u>\$ 2,232,032</u>	<u>\$ 36,520,997</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE F- CAPITAL ASSETS - Continued

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

Governmental activities:

General and government	\$	215,161
Public works and sanitation		612,530
Public safety		68,770
Culture and recreation		325,810
Welfare and community development		29,177
Education		9
Total depreciation expense, governmental activities	\$	1,251,457

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 purpose other than 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.

NOTE G- OTHER ASSETS

Other assets include a \$133,600 deposit in a Commonwealth's court of justice for the acquisition of a parcel of land.

NOTE H- 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, 2011:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE H- LONG-TERM DEBT- Continued

	Balance at July 1, 2010	Increases	Decreases	Balance at June 30, 2011	Due within one year
General, Special Obligation Bonds and Notes	\$ 6,864,000	\$ 1,050,000	\$ 570,000	\$ 7,344,000	\$ 493,000
Note payable to CRIM-Law No. 42	419,083	-	9,333	409,750	9,919
Note payable to CRIM-LIMS	32,766	-	21,522	11,244	11,244
Note payable to CRIM-financing of delinquent accounts	45,287	-	2,059	43,228	2,059
Line of credit - GDB Compensated absences	215,881	-	-	215,881	-
Christmas Bonus	1,085,684	207,030	95,624	1,197,090	122,110
Payable to CRIM- property tax advances current	164,716	151,666	164,716	151,666	151,666
Payable to PREPA	24,919	225	21,469	3,675	3,675
	<u>365,241</u>	<u>326,626</u>	<u>311,365</u>	<u>380,502</u>	<u>271,626</u>
	<u>\$ 9,217,577</u>	<u>\$ 1,735,547</u>	<u>\$ 1,196,088</u>	<u>\$ 9,757,036</u>	<u>\$ 1,065,299</u>

2. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2011 amount to \$7,344,000. 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 bond of \$635,000) 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).

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, 2011 follows:

	<u>Outstanding Amount</u>
1994 public improvement bonds of \$721,000 due in annual installments of \$17,000 to \$52,000 through January 1, 2017; bearing interest at 5.0%	\$ 274,000
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 6.62% (1.54% at June 30, 2011)	535,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE H- LONG-TERM DEBT - Continued

	<u>Outstanding Amount</u>
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% (4.40% at June 30, 2011)	1,335,000
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%	435,000
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% (1.54% at June 30, 2011)	88,000
2005 general obligation notes of \$645,000 due in annual installments of \$80,000 to \$115,000 through July 1, 2012; bearing interest at rates ranging from 4.23% to 4.73% (4.62% at June 30, 2011)	215,000
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% (1.54% at June 30, 2011)	270,000
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% (1.54% at June 30, 2011)	475,000
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% (1.54% at June 30, 2011)	420,000
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% (1.54% at June 30, 2011)	600,000
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% (1.54% at June 30, 2011)	1,327,000
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, 2011)	320,000
2010 general obligation bonds of \$1,050,000 due in annual installments of \$15,000 to \$90,000 through July 1, 2035; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2011)	1,050,000
	<u>\$ 7,344,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE H- LONG-TERM DEBT - Continued

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2011 follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 493,000	\$ 442,606
2013	531,000	424,344
2014	451,000	394,852
2015	370,000	371,424
2016	369,000	347,693
2017-2021	1,934,000	1,339,016
2022-2026	1,801,000	709,006
2027-2031	835,000	319,009
2032-2035	560,000	97,675
Totals	<u>\$ 7,344,000</u>	<u>\$ 4,445,625</u>

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. 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:

\$ 409,750

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE H- LONG-TERM DEBT - Continued

4. Other long-term liabilities

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 9,919	\$ 25,103
2013	10,543	24,579
2014	11,205	23,917
2015	11,909	23,213
2016	12,657	22,464
2017-2021	76,263	99,344
2022-2026	103,428	72,179
2027-2031	140,269	35,338
2032-2033	33,557	1,565
Totals	<u>\$ 409,750</u>	<u>\$ 327,702</u>

**Outstanding
Amount**

Note payable to CRIM (LIMS) - On November 28, 2001 the Municipality entered into a financing agreement with the CRIM in the amount of \$172,655 for the payment of the Municipality's share of the cost of a management information system (**LIMS**) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$11,578, including interest of 5.95%, and is due on November 28, 2011. 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:

11,244

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 11,244	\$ 279
Totals	<u>\$ 11,244</u>	<u>\$ 279</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE H- LONG-TERM DEBT – Continued

Note payable to CRIM (Financing of delinquent accounts)– On March 27, 2002 the Municipality entered into a financing agreement with the CRIM in the amount of \$165,479 to finance delinquent property tax accounts sold to private investors under the provisions of Law No. 146 of October 11, 2001. The agreement is in the form of a 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:

**Outstanding
Amount**

43,228

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 2,059	\$ 2,689
2013	2,059	2,561
2014	2,059	2,433
2015	2,059	2,305
2016	2,059	2,177
2017-2021	10,292	8,963
2022-2026	10,292	5,762
2027-2031	10,292	2,561
2032-2033	2,057	127
Totals	<u>\$ 43,228</u>	<u>\$ 29,578</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE H- 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 Q). 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>	215,881
<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>	1,197,090
<p>Christmas Bonus - represents the accrued portion corresponding to fiscal year 2011 of the Christmas bonus to be paid in December 2011.</p>	151,666
<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-year 2010. (See related note J)</p>	3,675

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE H- LONG-TERM DEBT - Continued

	<u>Outstanding Amount</u>
<p>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 2009-2010 the Municipality's annual energy charges amounts to \$1,118,691 but the CELI obligation amounted to \$792,065. The excess amount of \$326,626 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, 2011 the outstanding amount of \$380,502 includes a balance of \$162,750 from fiscal year 2009 and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:</p>	380,502

June 30	Principal
2012	\$ 271,626
2013	108,876
Totals	\$ 380,502

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE I- DEFERRED REVENUES – GOVERNMENTAL FUNDS

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

	Commonwealth Government	Federal Grants
<u>Major fund - general fund:</u>		
Puerto Rico Department of Treasury – Christmas Bonus Reimbursement	\$ 75,833	\$ -
P.R. Electric Power Authority (PREPA)	380,502	-
Municipal Revenue Collection Center (CRIM) – property taxes (general fund)	10,021	-
Municipal Revenue Collection Center (CRIM) – sales and use taxes (general fund)	29,869	-
<u>Major fund – debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – sales and use taxes, Municipal Redemption Fund (debt service fund)	5,405	-
<u>Major fund – Community Development Block Grant fund:</u>		
Office of Commissioner of Municipal Affairs –CDBG	-	95,026
<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	-	88,238
<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	-
P.R. Office of the Ombudsman for the Elderly	13,114	-
Improvements of Recreational Facilities – Barrero Community	60,418	-
Maintenance of Roads – DTOP 3101	12,810	-
P.R. Office of the Ombudsman for the Elderly – Title III-B and III-E	-	5,721
ARRA – Homeless Prevention and Rapid Re-housing Program Fund	-	25,550
ARRA – Edward Byrne Memorial Justice Assistance Program	-	36,825
	\$ 1,131,023	\$251,360

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE J – 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, 2011 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund	2.00%	2.00%
Total tax rate	<u>7.03%</u>	<u>9.03%</u>
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department	(.20%)	(.20%)
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 payable of \$3,675 resulting from the settlement of fiscal year 2009-2010 is recorded as other long-term debt in the government-wide financial statements since it will not be paid with current available financial resources. A receivable of \$10,021 from the preliminary settlement of fiscal 2010-2011 was recorded as deferred revenue since is not available are required by current standards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE J – PROPERTY TAXES - Continued

On July 2, 2010 the Commonwealth's Legislature approved Act No. 71 which established an incentive plan (amnesty) for the payment of property tax debts. The Act, applicable to tax years 2008-2009 and before, provided participants a 100% interest and penalties waived. Funds will be collected by the CRIM and remitted to the Municipalities. During the year 2010-2011 amnesty collections of \$186,935 and \$76,101 were recorded in the general fund and debt service fund, respectively.

NOTE K – MUNICIPAL LICENSE TAXES

Municipal License taxes are assessed annually by the Municipality to all organizations or entities 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, 2011, 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, 2011 but pertaining to the next fiscal year in the amount of \$321,424 are recorded as deferred revenues.

NOTE L – SALES AND USE TAXES

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

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The municipal sales and use tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The municipal sales and use tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within Municipal limits. The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on November 15, 2006.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE L – SALES AND USE TAXES - Continued

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 the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed, and distributed as follows:

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

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

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month. A total of \$23,061 sales and use tax receivable from PRDT represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality by the PRDT on or before July 10, net of uncollectible accounts (1%); \$62,790 and \$28,387 represent amounts of "Municipal Development Fund" and "Municipal Redemption Fund", respectively, collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30. The amount of \$5,405 (related to Municipal Redemption Fund) is recorded as deferred revenue since is not available as required by current standards.

NOTE M – INTERGOVERNMENTAL AND OTHER REVENUES

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

	Amount
Amount of municipal equalization fund and subsidy sent by CRIM	\$ 4,070,688
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,499,905
Reimbursement from Commonwealth Government - Christmas Bonus expenditures	132,598
	\$ 5,703,191

Other revenues in the General Fund are basically composed of miscellaneous revenues.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE N – RETIREMENT PLAN

1. *Plan description*

Regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended 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 will only be allowed to become members of the new program.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will 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 account 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, 2011**

NOTE N – 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 employees under a supplementation plan, which contribute 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>
2011	\$ 94,712	\$ 192,341
2010	\$ 99,327	\$ 201,391
2009	\$ 101,305	\$ 193,069

NOTE O – POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note N, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicine bonus, Christmas bonus and death benefits. For the fiscal year 2011, costs related to these post employment benefits amounted to \$62,198. These benefits are recorded as expenditures in the general fund.

NOTE P – 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 \$37,776. 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, 2011 the Municipality has commitments of \$2,610,970 for the design, construction, improvement or renovation of certain municipal facilities.

3. Encumbrances

As of June 30, 2011 the Municipality has outstanding encumbrances in the general fund of \$58,679 which are assigned for general government purposes mainly for professional services.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE Q – CONTINGENCIES

1. *Federal and Commonwealth Grants*

Projects financed by the Federal and Commonwealth Grants are subject to audits by grantors and other governmental agencies in order to determine 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 perform.

2. *Litigations*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that would not be covered by insurance. 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 H, the Municipality entered into a \$1,200,000 line of credit agreement with GDB to finance construction costs of the New City Hall. The line of credit is being repaid from Commonwealth's Public Improvements Fund appropriations maintained by the Puerto Rico Office of Management and Budget (PROMB). Under this agreement, construction costs incurred and billed to the Municipality are paid to contractors (net of 10% retention) by GDB through the line of credit. Then, and from the referred appropriations, PROMB reimburses GDB these costs plus interest expense. The line of credit outstanding balance at year-end represents amounts paid by GDB but not reimbursed by PROMB.

The line of credit agreement expired on June 30, 2008 and the project is completed. As of June 30, 2011 the amount of \$194,868 remains unpaid by PROMB to GDB. In addition, a principal balance of \$215,881 plus \$40,260 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, 2011**

NOTE R – NET ASSETS \ FUND BALANCE RESTATEMENTS

The following table disclosed the net change in net assets and fund balances at beginning of year as previously reported in the financial statements. The beginning balances have been restated as follows:

Description	Fund Balances			Net Assets
	General Fund	\$1,428,000 Loan Issuance	Other Governmental Funds	Government- wide statements
Fund Balance / net assets, at beginning of year, as previously reported	\$ 1,290,997	\$ 849,845	\$ 1,219,025	\$ 32,503,631
Reclassification of Law 52 Special Fund to Other Governmental Funds as a result of application of GASB Statement Number 54	(682)	-	682	-
Correction of error, amount recorded as accounts payable to suppliers but paid before June 30, 2010	-	30,000	-	30,000
Fund Balance / net assets, at beginning of year, as restated	<u>\$ 1,290,315</u>	<u>\$ 879,845</u>	<u>\$ 1,219,707</u>	<u>\$ 32,533,631</u>

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property taxes	\$ 1,937,223	\$ 1,937,223	\$ 1,672,898	\$ (264,325)
Municipal license taxes	505,000	505,000	584,766	79,766
Sales and use taxes	750,000	750,000	727,595	(22,405)
Intergovernmental	4,762,959	4,762,959	4,843,926	80,967
Fees, fines and charges for services	733,120	733,120	769,991	36,871
Interest	60,000	60,000	60,255	255
Other	36,698	36,698	60,856	24,158
Total revenues	8,785,000	8,785,000	8,720,287	(64,713)
EXPENDITURES:				
Current:				
General government	4,040,956	4,019,986	3,886,671	133,315
Public works and sanitation	2,415,294	2,426,494	2,395,652	30,842
Public safety	952,865	831,265	822,698	8,567
Culture and recreation	551,884	494,754	459,901	34,853
Health	339,565	320,565	320,368	197
Welfare and community development	298,686	288,586	287,460	1,126
Total expenditures	8,599,250	8,381,650	8,172,750	208,900
Excess of revenues over expenditures	185,750	403,350	547,537	144,187
Other financing uses:				
Transfers out	(185,750)	(403,350)	(403,332)	18
Total other financing uses	(185,750)	(403,350)	(403,332)	18
Excess of revenues over expenditures and other financing uses	\$ -	\$ -	\$ 144,205	\$ 144,205

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
JUNE 30, 2011

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 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 and 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 assigned 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, 2011

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	\$ 144,205
Budget to GAAP differences:	
Entity differences:	
Non-budgeted funds recorded as revenues for financial reporting purposes	246,387
Non-budgeted funds recorded as expenditures for financial reporting	(233,589)
Non-budgeted transfers in	511,500
Non-budgeted transfers out	(25,178)
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis	422,968
Revenues recorded in budgetary basis purposes but not in financial reporting	(138,819)
Expenditures recorded in budgetary basis but not for financial reporting purposes	47,488
Expenditures recorded for financial reporting purposes but not in budgetary basis.	(380,345)
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes	49,284
Prior year encumbrances recorded as expenditures for financial reporting purposes	(43,047)
Net change in fund balance (GAAP basis)	\$ 600,854

SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON

SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2011

Line Item No.	Description	14.871	
		Housing Choice Vouchers	
Balance Sheet			
111	Cash - unrestricted	\$	11,232
113	Cash - other restricted	\$	13,418
100	Total cash	\$	24,650
122	Accounts receivable - HUD other projects	\$	230
126.2	Allowance for doubtful accounts - other	\$	-
120	Total receivables, net of allowance for doubtful accounts	\$	230
150	Total Current Assets	\$	24,880
164	Furniture, equipment and machinery - administration	\$	2,009
166	Accumulated depreciation	\$	(1,786)
160	Total capital assets, net of accumulated depreciation	\$	223
180	Total Non-current Assets	\$	223
190	Total Assets	\$	25,103
312	Accounts payable <= 90 days	\$	-
322	Accrued compensated absences - current portion	\$	1,458
333	Accounts payable - other government	\$	556
341	Tenant security deposits	\$	-
342	Deferred revenue	\$	-
345	Other current liabilities	\$	-
347	Inter-program - due to	\$	-
310	Total Current Liabilities	\$	2,014
353	Non-current liabilities - other	\$	-
354	Accrued compensated absences - non current	\$	40
350	Total Non-current Liabilities	\$	40
300	Total Liabilities	\$	2,054
508.1	Invested in Capital Assets, Net of Related Debt	\$	223
511.1	Restricted Net Assets	\$	13,418
512.1	Unrestricted Net Assets	\$	9,408
513	Total Equity/Net Assets	\$	23,049
600	Total Liabilities and Equity/Net Assets	\$	25,103
Income Statement			
70600-010	Housing assistance payments	\$	119,987
70600-020	Ongoing administrative fees earned	\$	22,714
70600-070	Admin fee calculation description	\$	
70600	HUD PHA operating grants	\$	142,701
71500	Other revenue	\$	7,844
700	Total Revenue	\$	150,545
91100	Administrative salaries	\$	14,316
91500	Employee benefit contributions- administrative	\$	5,116
91600	Office expenses	\$	218
91000	Total Operating - Administrative	\$	19,650
96200	Other general expenses	\$	
96210	Compensated absences	\$	547
96000	Total Other General Expenses	\$	547
96900	Total Operating Expenses	\$	20,197
97000	Excess Revenue Over Operating Expenses	\$	130,348
97300-050	All Other	\$	119,188
97300	Housing assistance payments	\$	119,188
97350	HAP Portability-in	\$	6,597
97400	Depreciation expense	\$	38

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON

SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2011

Line Item No.	Description	14.871
		Housing Choice Vouchers
Balance Sheet		
97500	Fraud losses	\$ -
900	Total Expenses	\$ 146,020
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ 4,525
11030	Beginning equity	\$ 18,524
11040-010	Prior period adjustments and correction of errors - Editable	\$ -
11770-001	Administrative Fee Equity - Beginning Balance	\$ 5,905
11170-010	Administrative Fee Revenue	\$ 22,714
11170-021	FSS Coordinator Grant	\$ -
11170-030	Audit Costs	\$ -
11170-040	Investment Income	\$ -
11170-045	Fraud Recovery Revenue	\$ -
11170-050	Other Revenue	\$ 7,844
11170-051	Comment For Other Revenue	This amount corresponds to the administrative fees earned on the portability-in vouchers administered by the Municipality (\$1247) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 10-11 (\$6,597)
11170-060	Total Admin Fee Revenues	\$ 30,558
11170-080	Total Operating Expenses	\$ 20,197
11170-090	Depreciation	\$ 38
11170-095	Housing Assistance Portability In	\$ 6,597
11170-110	Total Expenses	\$ 26,832
11170	Administrative Fee Equity	\$ 9,631
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ 12,619
11180-010	Housing Assistance Payments Revenues	\$ 119,987
11180-015	Fraud Recovery Revenue	\$ -
11180-021	Comment For Other Revenue	\$ -
11180-025	Investment Income	\$ -
11180-030	Total HAP Revenues	\$ 119,987
11180-080	Housing Assistance Payments	\$ 119,188
11180-090	Other Expenses	\$ -
11180-091	Comment For Other Expense	\$ -
11180-100	Total Housing Assistance Payments Expenses	\$ 119,188
11180-002	Net Housing Assistance Payments	\$ 799
11180-003	Housing Assistance Payments Equity - Ending Balance	\$ 13,418
11180	Housing Assistance Payments Equity	\$ 13,418
11190-210	Total ACC HCV Units	408
11190-220	Unfunded Units	-
11190-230	Other Adjustments	-
11190	Unit Months Available	408
11210	Unit Months Leased	390

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTE TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
June 30, 2011

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, 2011

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 programs:			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 415,225
Passed-through program from:			
<u>P.R. Department of Education</u>			
Child and Adult Care Food Program	10.558	CCC-110	19,252
Subtotal U.S. Department of Agriculture			<u>434,477</u>
U.S. Department of Housing and Urban Development			
Direct programs:			
Section 8 Housing Choice Vouchers Program	14.871	N/A	142,701
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	718,261
ARRA - Community Development Block Grant / State's Program (State-Administered Small Cities Program)	14.255	AB - AR - 53	102,649
Total CDBG - State-Administered Small Cities Program Cluster:			<u>820,910</u>
<u>P.R. Department of Family:</u>			
ARRA - Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.262	122-2010-000229	87,773
Subtotal U.S. Department of Housing and Urban Development			<u>1,051,384</u>
U.S. Department of Justice			
Passed-through program from:			
<u>P.R. Department of Justice:</u>			
ARRA - Eward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories	16.803	2009-SU-IPRIN-01	138,035
U.S. Department of Labor			
Passed-through program from:			
<u>Northwest Consortium:</u>			
WIA Youth Activities	17.259	16675	8,906
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	14,130
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, 110211R2	4,451
Aging Cluster:			
Special Programs for the Aging_Tittle III Part B_ Grants for Supportive Services and Senior Centers	93.044	100267R2, 110211R2	28,488
Special Programs for the Aging_Tittle III, Part C_Nutrition Services	93.045	100268R2, 110211R2	87,232
Nutrition Services Incentive Program	93.053	100312R2, 110211R2	17,887
Total Aging Cluster:			<u>133,607</u>
<u>P.R. Department of Family - Families and Children Administration:</u>			
Child Care and Development Block Grant	93.575	2010-000108, 2011-000262	90,607
Subtotal U.S. Department of Health and Human Services:			<u>228,665</u>
U.S. Department of Homeland Security			
Passed-through program from:			
<u>Puerto Rico Governor Office - (Office of Public Safety Affairs):</u>			
State Homeland Security Grant Program (SHSP)	97.073	2009-SS-T9-0091	47,753
Total Expenditures of Federal Awards			<u>\$ 1,923,350</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, 2011**

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, 2011. 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	\$ -	\$ -	\$ 19,252
10.760	-	415,225	-
14.228	718,261	-	-
ARRA - 14.228	102,649	-	-
14.871	-	-	142,701
ARRA – 14.262	-	-	87,773
ARRA – 16.803	-	-	138,035
17.259	-	-	8,906
ARRA – 81.128	-	-	14,130
93.043	-	-	4,451
93.044	-	-	28,488
93.045	-	-	87,232
93.053	-	-	17,887

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011**

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>
93.575	-	-	90,607
97.073	-	-	47,753
Total federal awards expenditures	820,910	415,225	687,215
Total non-federal awards expenditures	-	-	2,116,375
Total expenditures, fund statements	<u>\$ 820,910</u>	<u>\$ 415,225</u>	<u>\$ 2,803,590</u>

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Rincón (the Municipality), as of and for the year ended June 30, 2011, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 2, 2012. 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, 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.

Valdés García, Marín & Martínez, LLP

San Juan, Puerto Rico
March 2, 2012

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VALDES, GARCIA , MARIN & MARTINEZ, LLP

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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 Rincón
Rincón, Puerto Rico**

Compliance

We have audited the Municipality of Rincón's (the Municipality) compliance with the types of compliance requirements described in the *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, 2011. The Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

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

In our opinion, the Municipality, 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 for the year ended June 30, 2011.

Internal Control over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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.

Valdís García, Marín & Martínez, LLP

San Juan, Puerto Rico
March 2, 2011

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2011

Section I - Summary of Audit Results

A. Summary of audit results:

Part I - Financial Statements

- | | | |
|---|---|---|
| 1. Type of audit report: | <input checked="" type="checkbox"/> Unqualified opinion | <input type="checkbox"/> Qualified opinion |
| | <input type="checkbox"/> Adverse opinion | <input type="checkbox"/> Disclaimer of opinion |
| 2. Significant deficiencies | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| 3. Significant deficiencies reported as material weaknesses | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None reported |
| 4. Material noncompliance disclosed | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Part II - Federal Awards

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

5. Major programs

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2011

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, 2011

Section III - Federal Awards Findings and Questioned Costs

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

**SCHEDULE OF STATUS OF PRIOR YEARS AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Finding Number	Program	Noncompliance	Condition	Questioned Costs	Status and Corrective Action Plan
2001-11-2	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.