



**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, 2012***



***Mr. Carlos López-Bonilla***

***Mayor***

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

***Finance Director***

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

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***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, 2012, 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, 2012, 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 11, 2013, 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 48 through 50 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 54 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 51 through 53 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 11, 2013

Stamp 49243 was affixed  
to the original.

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2012**

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, 2012. 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 2012 by \$35,491,676 (net assets).
- Revenues increased 6% while expenses increased 8% when compared with fiscal year 2011.
- Net change in net assets amounted to \$1,399,934 a decrease of 10% with respect to the prior year net change.

**Highlights for Fund Financial Statements**

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

- A net change (increase) in the fund balances of the Municipality's governmental funds of \$256,504 in the fiscal year 2012 resulted in reported ending fund balances of \$5,904,544. Approximately 22% of the total fund balances is unrestricted (committed, assigned or unassigned).
- For the fiscal year 2012, the General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources of \$101,157. The unassigned fund balance amounts to \$1,125,722.

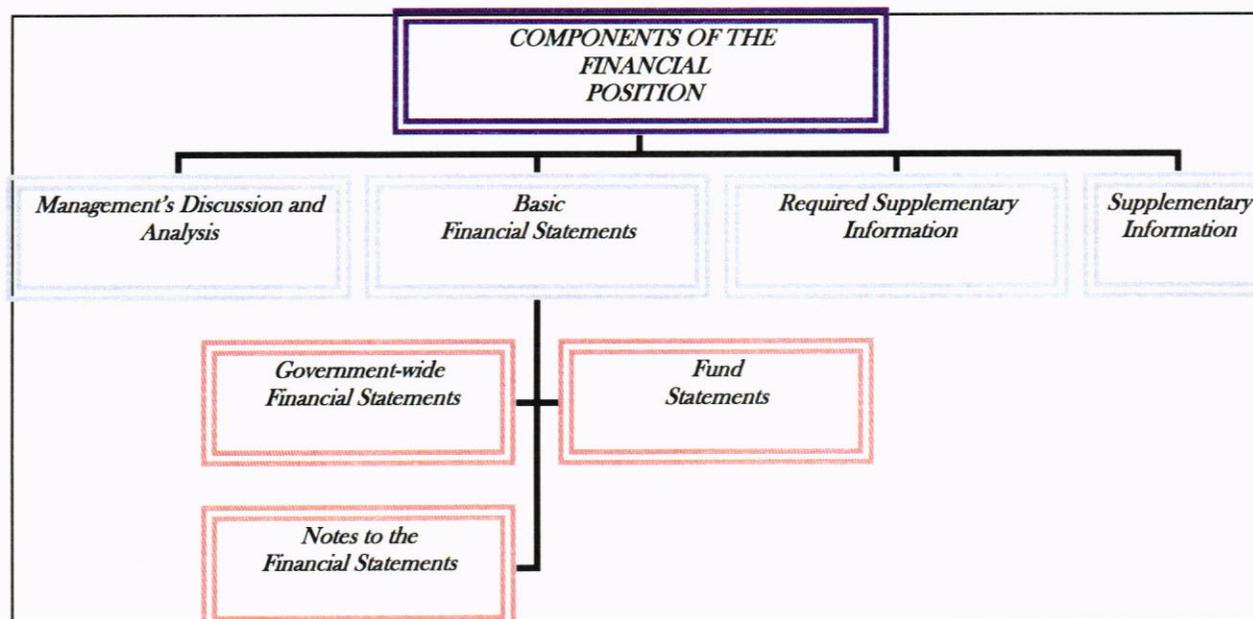
**General Financial Highlights**

- The investment in capital assets as of June 30, 2012 was \$37,826,077 (net of depreciation).
- Long-term debt increased to \$10,347,553 or approximately 6% with respect to the prior year.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$13,987.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2012**

**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, 2012**

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, 2012**

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

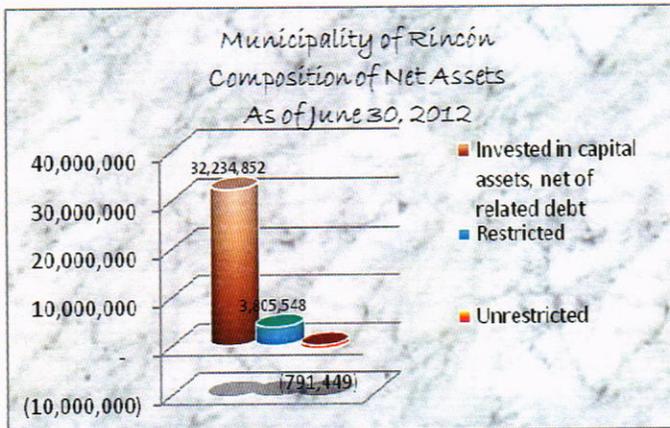
**Net Assets**

The following table presents a summary of the Statements of Net Assets as of June 30, 2012 and 2011:

**TABLE 1**

<b>Summary Statement of Net Assets As of June 30,</b>		
	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current and other assets	\$ 10,594,705	\$ 9,552,101
Capital assets	37,826,077	36,520,997
<b>Total assets</b>	<b>\$ 48,420,782</b>	<b>\$ 46,073,098</b>
<b>Liabilities</b>		
Current and other liabilities	\$ 2,581,553	\$ 2,224,320
Long-term liabilities	10,347,553	9,757,036
<b>Total liabilities</b>	<b>12,929,106</b>	<b>11,981,356</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	32,234,852	30,264,877
Restricted	3,809,610	4,233,617
Unrestricted (deficit)	(552,786)	(406,752)
<b>Total net assets</b>	<b>\$ 35,491,676</b>	<b>\$ 34,091,742</b>

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. At June 30, 2012, assets exceeded its liabilities by \$35,491,676, representing an increase of 3% with respect to year 2011 due to increase in collection in Property 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, 2012**

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 2012, 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**

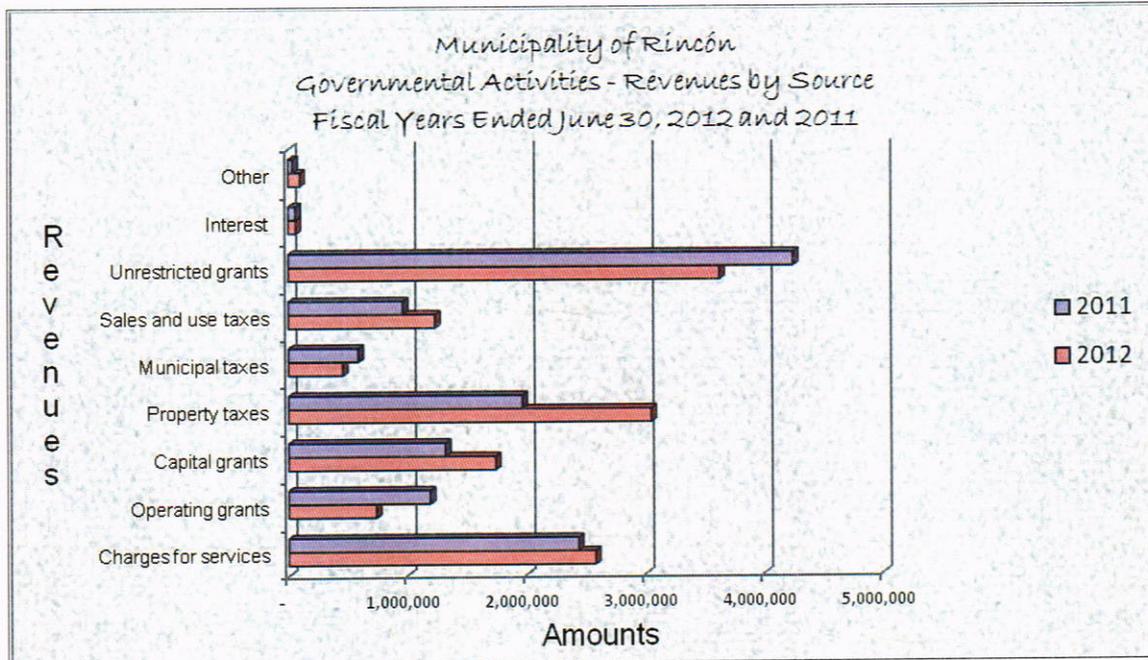
The following table summarizes the changes in net assets for the fiscal years ended 2012 and 2011:

**TABLE 2**

<b>Summary of Changes in Net Assets As of June 30,</b>		
	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
<b>Program revenues:</b>		
Fees, fines and charges for services	\$ 2,578,810	\$ 2,434,385
Operating grants and contributions	723,216	1,188,396
Capital grants and contributions	1,739,629	1,318,778
<b>General revenues:</b>		
Property taxes	3,049,134	1,964,137
Municipal license taxes	457,824	587,529
Sales and use taxes	1,232,388	963,407
Grants and contributions not restricted to specific programs	3,626,082	4,245,213
Interest	62,109	60,798
Other	97,427	35,897
<b>Total revenues</b>	<b>13,566,619</b>	<b>12,798,540</b>
<b>Expenses:</b>		
General government	5,272,315	4,651,850
Public works and sanitation	3,423,090	3,264,909
Public safety	984,669	1,022,764
Culture and recreation	835,702	781,568
Health	320,704	320,367
Housing, welfare and community development	1,018,903	895,142
Education	4,507	12,704
Interest on long term-debt	306,795	291,125
<b>Total expenses</b>	<b>12,166,685</b>	<b>11,240,429</b>
<b>Change in net assets</b>	<b>1,399,934</b>	<b>1,558,111</b>
<b>Net assets-beginning of year</b>	<b>34,091,742</b>	<b>32,533,631</b>
<b>Net assets-end of year</b>	<b>\$ 35,491,676</b>	<b>\$ 34,091,742</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2012**

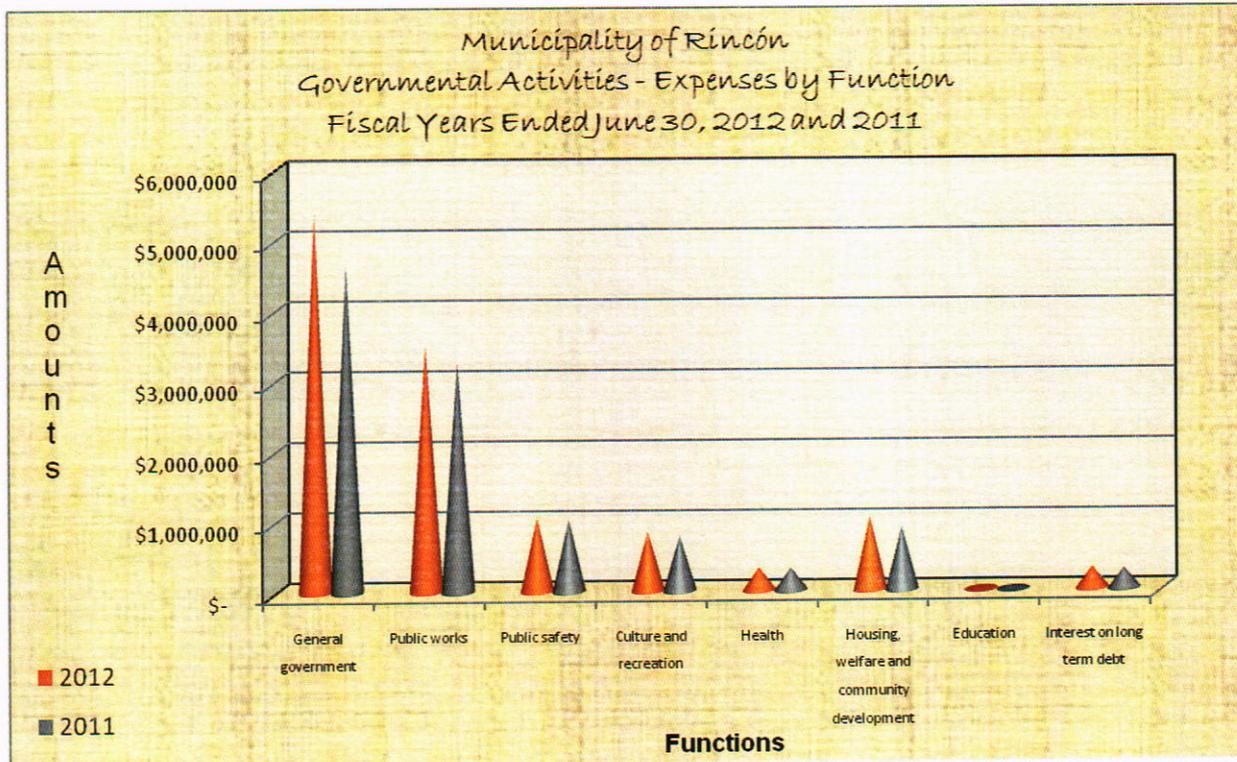
**FIGURE 1**



Approximately 27% of the Municipality's revenues came from unrestricted grants, 22% from property taxes, 18% from operating and capital grants, 19% from fees, fines, and charges for services, 9% from sales and use taxes, 3% from municipal license taxes, and 1% from other revenues. Revenues increased by 6% in comparison with year 2011. The most significant change is an increase of 52% in property tax revenues due to increase in collections by the CRIM and a positive final liquidation. There were also significant increases by 32% and 28% in capital grants and sales and use taxes, respectively, due to increases in grant revenues of CDBG program and increase in collections of sales taxes during the year. Revenue decreases of 39% and 15% were noted in operating and unrestricted grants, respectively, from 2011. Operating grants reported less revenue due to a decrease in JAG federal program grant (ARRA). Unrestricted grants reported a decrease in the amount of municipal equalization fund and subsidy sent by CRIM.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2012**

**FIGURE 2**



The Municipality's expenses cover a range of services. The largest expenses are general government representing approximately 43%, and public works and sanitation with 28%. Program revenues of the Municipality covered approximately 41% of total expenses.

Total expenses increased 10% in comparison with the previous year. This includes an increase of 13% in general government and an increase of 14% in housing, welfare and community development expenditures. Increase in general government expense is due primarily to increase in utilities (electricity), insurance and professional services costs. Housing and welfare expenses were in excess of 2011 due to increase in welfare costs financed with Commonwealth Legislative Resolutions and HRPR ARRA Grant program, as well as an increase in salaries for summer jobs.

As noted previously the significant increase in revenues, combined with an increase in expenses, resulted in a reduced increase in net assets of approximately 10% when compared with the increase in net assets reported in the fiscal year 2011 statement of activities.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2012**

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**

<b>Net Cost of Municipality's Governmental Activities</b>				
<b>Fiscal years ended June 30,</b>				
<b>Functions/Programs</b>	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
General government	\$ 5,272,315	\$ 4,651,850	\$ (2,451,996)	\$ (2,185,659)
Public works and sanitation	3,423,090	3,264,909	(1,896,549)	(1,954,795)
Public safety	984,669	1,022,764	(816,916)	(749,203)
Culture and recreation	835,702	781,568	(717,191)	(452,161)
Housing, welfare and community development	1,018,903	895,142	(610,372)	(341,762)
Other	632,006	624,196	(632,006)	(615,290)
	<u>\$ 12,166,685</u>	<u>\$ 11,240,429</u>	<u>\$ (7,125,030)</u>	<u>\$ (6,298,870)</u>

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$2,578,810) and other governments and organizations that subsidized certain programs with grants and contributions (\$2,462,845). The \$(7,125,030) 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.

For the fiscal year ended June 30, 2012, the governmental funds reported ending fund balances of \$5,904,544, a net increase of \$256,504 in comparison with the prior year. This increase was caused primarily by increases of \$688,004, \$214,872 and \$101,157 in the Other Governmental Funds, Debt Service Fund and General Fund respectively, with decreases of \$573,392, \$124,613, \$49,175 and \$349 in the Commonwealth Legislative Resolutions fund, Community Development Block Grant Fund, Ojo de Agua Hotel and the \$1,428,000-Loan Issuance, respectively.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2012**

Of the total fund balances, \$1,307,397 (or 22%) 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 are restricted to indicate that they are not available for new spending. Nonspendable fund balance represents .29% of total fund balances.

The general fund is the operating fund of the Municipality. The fund balance of the general fund represents approximately 34% of total ending fund balances; 8% or \$150,900 of the fund balance of the general fund is restricted mainly to finance the maintenance of the sunset village facilities as required by the grant agreement. Committed and assigned portions of the unrestricted fund balance of the general fund are distributed as follows:

- \$22,757 committed for general public works and sanitation
- \$100,000 committed for capital outlays
- \$194,562 committed for general government and other purposes
- \$167,519 assigned for general public works and sanitation
- \$232 assigned for public safety
- \$4,762 assigned for culture and recreation
- \$150,000 assigned for capital projects
- \$75,872 assigned for general government and other purposes

The remainder of the unrestricted fund balance, or \$1,125,722, is unassigned fund balance, which represents 57% of the total fund balance of the general fund and 12% of total general fund expenditures.

For the year ended June 30, 2012, the fund balance of the general fund increased by a net change of \$101,157 when compared with the prior year. Of this net change, a decrease of \$430,626 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 2011-2012 presented an increase of .17% with respect to the prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year 2012, budget expenditures were decreased by \$100,000 while transfers out were increased by the same amount. Actual revenues fall short from the revised budgeted revenues by \$126,208 (net). The most significant variances were a negative variance of \$207,346 in fees, fines and charges for services and a positive variance of \$129,868 in sales and use taxes revenues. The Municipality also reported a negative variance of \$99,204 between revised budgeted appropriations and actual expenditures. Actual revenues exceeded actual expenditures by \$13,987.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2012**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets**

At the end of the fiscal year, the Municipality has invested \$37,826,077 (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 4% over the prior year.

**TABLE 4**

<i>Capital Assets, net As of June 30,</i>		
	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
<b>Non-depreciable assets:</b>		
Land	\$ 7,775,118	\$ 7,739,918
Construction in progress	5,776,609	6,089,664
<b>Depreciable assets (net):</b>		
Land improvements	761,339	809,455
Buildings and buildings improvements	15,967,830	14,518,246
Infrastructure	5,854,383	5,604,243
Vehicles, machinery and equipment	1,690,798	1,759,471
<b>Total</b>	<b>\$ 37,826,077</b>	<b>\$ 36,520,997</b>

The Municipality's major capital projects that were still in construction as of June 30, 2012 are as follows:

- Barrero Sanitary Sewer System – \$2,688,998
- Construction of "Multi-use" Center at Union Street - \$909,824
- Construction of recreational facilities on Barrero ward – \$738,517
- Rio Grande Residential Development - \$281,061
- Facilidades Recreativas Sector Emiliano, Bo. Cruces- \$920,236

During the year, equipment for a total amount of \$305,128 was placed in use including a dumper truck and photovoltaic system for a total cost of \$93,895 and \$87,030.

The Municipality's fiscal year 2012-2013 capital budget calls for a significant amount of projects including the opening of the "Multi-use" Center at Union Street with an estimated total cost of \$909,824; 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, and the continuance of the construction of the Multi-use Center on Union Street, with an estimated total cost of \$855,000. 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, 2012**

**Long-term debt**

At year-end, the Municipality had \$7,871,000 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, 2012 and 2011:

**TABLE 5**

<b>Outstanding Long-term Debt</b>		
<b>Fiscal years ended June 30,</b>		
	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
General and special obligation bonds and notes	\$ 7,871,000	\$ 7,344,000
Note payable to CRIM – Law No. 42	399,831	409,750
Note payable to CRIM – LIMS	-	11,244
Note payable to CRIM – financing of delinquent accounts	41,169	43,228
Line of credit - GDB	-	215,881
Payable to PREPA	531,741	380,502
Compensated absences	1,347,172	1,197,090
Christmas bonus payable	146,991	151,666
Payable to CRIM from property tax advances	9,649	3,675
<b>Total</b>	<b>\$ 10,347,553</b>	<b>\$ 9,757,036</b>

The Municipality reported a net increase in other long-term debts (other than general obligation bonds and notes) of \$63,517. This increase was mostly affected by the net effect from the increase of \$150,082 in Compensated Absences, an increase of \$151,239 in P.R. Electric Power Authority (PREPA) debt, decreases of \$11,244 and \$9,919 in the LIMS and P.R. Law 42 debts, respectively, and a negative adjustment in the Line of Credit of \$1,200,000 of \$215,881. 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 2012-2013 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 18.6%, and the Commonwealth rate stands at 14.9%.

For year 2012-2013 the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are \$8,950,000, representing an increase of 2% 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 2012-2013 fiscal years.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2012**

In addition to the general fund estimated budget, the Municipality plans to submit to the Federal and Commonwealth governments 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, 2012**

<b>ASSETS</b>	<u><b>Governmental Activities</b></u>
Cash and cash equivalents	\$ 2,542,018
Receivables, net:	
Municipal license taxes	2,146
Due from:	
Commonwealth Government (note C)	1,460,036
Federal Government (note C)	481,027
Restricted assets:	
Cash and cash equivalents	1,781,534
Cash with fiscal agent	4,160,966
Deferred bond issuance costs, net of accumulated amortization of \$29,172	33,378
Other assets (note G)	133,600
Capital assets (note F):	
Land and construction in progress	13,551,727
Other capital assets, net	24,274,350
Total capital assets, net	<u>37,826,077</u>
<b>Total assets</b>	<u><u>\$ 48,420,782</u></u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 1,466,303
Interest payable	136,058
Due to:	
Commonwealth Government	105,851
Deferred revenues:	
Municipal License taxes	380,227
Intergovernmental-Commonwealth agencies	348,183
Intergovernmental-Federal grants	144,931
Long-term liabilities (note H):	
Due within one year	1,246,428
Due in more than one year	9,101,125
<b>Total liabilities</b>	<u>12,929,106</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	32,234,852
Restricted for:	
Debt service	2,234,033
Capital Projects	1,442,936
Other specified purposes	132,641
Unrestricted (deficit)	(552,786)
<b>Total net assets</b>	<u><u>\$ 35,491,676</u></u>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF RINCON**  
**STATEMENT OF ACTIVITIES**  
**FISCAL YEAR ENDED JUNE 30, 2012**

	Program Revenues			Net (expenses) revenues and changes in net assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	
<b>Functions</b>				
<b>Governmental Activities:</b>				
General government	\$ 5,272,315	\$ 2,577,010	\$ 76,510	\$ (2,451,996)
Public works and sanitation	3,423,090	-	105,630	(1,896,549)
Public safety	984,669	-	167,753	(816,916)
Culture and recreation	835,702	1,800	116,711	(717,191)
Health	320,704	-	-	(320,704)
Welfare and community development	1,018,903	-	256,612	(610,372)
Education	4,507	-	-	(4,507)
Interest on long-term debt	306,795	-	-	(306,795)
<b>Total</b>	<b>\$ 12,166,685</b>	<b>\$ 2,578,810</b>	<b>\$ 723,216</b>	<b>\$ (7,125,030)</b>

**General revenues :**

Taxes:	
Property taxes	3,049,134
Municipal license taxes	457,824
Sales and use taxes	1,232,388
Grants contributions not restricted to specific programs	3,626,082
Interest	62,109
Other	97,427
Total general revenues:	<u>8,524,964</u>
<b>Change in net assets</b>	1,399,934
<b>Net assets-beginning</b>	34,091,742
<b>Net assets-ending</b>	<u>\$ 35,491,676</u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
BALANCE SHEET -  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	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	Ojo de Agua Hotel	Other Governmental Funds	Total Governmental Funds	
<b>Assets</b>											
Cash and cash equivalents	\$ 2,542,018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,542,018
Receivables, net:											
License taxes	2,146	-	-	-	-	-	-	-	-	-	2,146
Due from:											
Commonwealth Government	1,100,791	-	143,417	-	-	-	-	215,828	-	-	1,460,036
Federal Government	-	-	-	380,968	-	-	-	100,059	-	-	481,027
Other funds (note D)	231,360	-	973	-	-	-	-	-	-	-	232,333
Advances to other funds (note D)	-	16,932	-	-	-	-	-	-	-	-	16,932
Restricted assets:											
Cash and cash equivalents	-	653,671	-	40	320,714	283,113	-	523,996	-	-	1,781,534
Cash with fiscal agent	-	-	2,225,701	-	320,714	283,113	-	1,378,309	-	-	4,160,966
<b>Total assets</b>	<b>\$ 3,876,315</b>	<b>\$ 670,603</b>	<b>\$ 2,370,091</b>	<b>\$ 381,008</b>	<b>\$ 320,714</b>	<b>\$ 283,113</b>	<b>\$ 556,956</b>	<b>\$ 2,218,192</b>	<b>\$ -</b>	<b>\$ 10,676,992</b>	
<b>Liabilities and Fund Balances (deficit)</b>											
<b>Liabilities:</b>											
Accounts payable and accrued liabilities	\$ 442,771	\$ 8,913	\$ -	\$ 336,828	\$ -	\$ 264,780	\$ 12,210	\$ 14,175	\$ 386,626	\$ 1,466,303	
Matured bonds and interest payable	-	-	708,304	-	-	-	-	-	-	708,304	
Due to:											
Commonwealth Government	105,851	-	-	-	-	-	-	-	-	105,851	
Other funds	973	-	-	44,179	-	-	-	35,000	152,181	232,333	
Advances from other funds	16,932	-	-	-	-	-	-	-	-	16,932	
Deferred revenues (notes J and L):											
Municipal License taxes	381,477	-	-	-	-	-	-	-	-	381,477	
Intergovernmental - Commonwealth Government	935,985	-	17,691	219,640	320,714	18,333	-	222,287	1,496,677	3,641,571	
Intergovernmental - Federal grants	-	-	725,995	600,647	320,714	283,113	12,210	49,175	887,692	4,772,448	
<b>Total liabilities</b>	<b>1,883,989</b>	<b>8,913</b>	<b>725,995</b>	<b>600,647</b>	<b>320,714</b>	<b>283,113</b>	<b>12,210</b>	<b>49,175</b>	<b>887,692</b>	<b>4,772,448</b>	
<b>Fund Balances (deficit):</b>											
Nonspendable	-	16,932	-	-	-	-	-	-	-	-	16,932
Restricted	150,900	644,758	1,644,096	-	-	-	544,746	-	1,595,715	4,580,215	
Committed	317,319	-	-	-	-	-	-	-	-	317,319	
Assigned	398,385	-	-	-	-	-	-	-	-	398,385	
Unassigned	1,125,722	-	-	(219,639)	-	-	-	(49,175)	(265,215)	591,693	
<b>Total fund balances (deficit)</b>	<b>1,992,326</b>	<b>661,690</b>	<b>1,644,096</b>	<b>(219,639)</b>	<b>-</b>	<b>-</b>	<b>544,746</b>	<b>(49,175)</b>	<b>1,330,500</b>	<b>5,904,544</b>	
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 3,876,315</b>	<b>\$ 670,603</b>	<b>\$ 2,370,091</b>	<b>\$ 381,008</b>	<b>\$ 320,714</b>	<b>\$ 283,113</b>	<b>\$ 556,956</b>	<b>\$ -</b>	<b>\$ 2,218,192</b>	<b>\$ 10,676,992</b>	

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, 2012**

<b>Total fund balances - governmental funds</b>		<b>\$ 5,904,544</b>
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		37,826,077
Other assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds:		
Deferred charges - bond issuance costs	\$ 33,378	
Other assets - deposit for acquisition of parcel of land	133,600	166,978
Other assets are not available to pay current-period expenditures and, therefore, are deferred in the funds:		
Due from Commonwealth Government:		
Christmas bonus reimbursement	73,496	
Property taxes- General Fund	293,042	
Sales and use tax- General Fund	37,706	
License Tax - General Fund	1,250	
Sales and use tax- Debt Service Fund	17,691	
P.R. State Agency for Emergency and Disaster Management	14,550	
P.R. Electric Power Authority (PREPA)	531,741	
P.R. Law 52	3,140	
P.R. Department of Transportation and Public Works (DTOP)	177,128	1,149,744
Due from Federal Government:		
Federal grant - CDBG		219,640
Interest liabilities are not due and payable in the current period period and, therefore, are not reported in the funds		(14,754)
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	(7,284,000)	
Note payable to CRIM-Law No. 42	(399,831)	
Note payable to CRIM-financing of delinquent accounts	(41,169)	
Payable to CRIM - property tax advances	(9,649)	
Compensated absences	(1,347,172)	
Christmas Bonus	(146,991)	
Debt payable to P.R. Electric Power Authority	(531,741)	(9,760,553)
<b>Net assets of governmental activities:</b>		<b><u>\$ 35,491,676</u></b>

The accompanying notes are an integral part of these statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF RINCON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT) -**  
**GOVERNMENTAL FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2012**

	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	Ojo de Agua Hotel	Other Governmental Funds	Total Governmental Funds		
<b>Revenues:</b>												
Taxes:												
Property taxes (note K)	1,971,257	-	\$ 794,856	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,766,113
Municipal license taxes (note L)	456,574	-	-	-	-	-	-	-	-	-	-	456,574
Sales and use taxes (note M)	920,466	-	291,799	-	-	-	-	-	-	-	-	1,212,265
Intergovernmental:												
Commonwealth Government (note N)	5,438,553	50,000	-	-	-	-	-	-	-	-	-	5,636,606
Federal Government	-	-	-	1,436,691	-	69,905	-	-	-	-	-	2,097,415
Fees, fines and charges for services	617,437	-	-	-	-	-	-	-	-	-	-	617,437
Interest	31,303	-	1,786	-	-	-	-	-	-	-	-	62,109
Other	109,634	300	-	-	-	-	-	-	-	-	-	194,868
<b>Total revenues</b>	<b>9,545,224</b>	<b>50,300</b>	<b>1,088,441</b>	<b>1,436,691</b>	<b>-</b>	<b>69,905</b>	<b>9,274</b>	<b>-</b>	<b>953,486</b>	<b>-</b>	<b>9,274</b>	<b>13,153,321</b>
<b>Expenditures:</b>												
Current:												
General government	4,236,392	-	-	108,380	-	-	-	-	-	-	-	4,451,051
Public works and sanitation	2,685,947	116,166	-	-	-	-	-	-	-	-	-	2,805,031
Public Safety	822,055	-	-	-	-	-	-	-	-	-	-	823,430
Culture and recreation	474,111	-	-	-	-	-	-	-	-	-	-	474,111
Health	320,367	-	-	-	-	-	-	-	-	-	-	320,367
Welfare and community development	348,416	40,231	-	151,919	-	-	-	-	-	-	-	1,056,877
Capital outlays	383,221	129,616	-	1,301,005	-	69,905	349	49,175	600,961	-	-	2,534,232
Debt Service:												
Principal	-	-	643,000	-	-	-	-	-	-	-	-	643,000
Interest	-	-	270,187	-	-	-	-	-	-	-	-	270,187
Bond issuance costs	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>9,270,509</b>	<b>286,013</b>	<b>913,187</b>	<b>1,561,304</b>	<b>-</b>	<b>69,905</b>	<b>349</b>	<b>49,175</b>	<b>1,283,316</b>	<b>5,472</b>	<b>8,925</b>	<b>13,433,758</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>274,715</b>	<b>(235,713)</b>	<b>175,254</b>	<b>(124,613)</b>	<b>-</b>	<b>-</b>	<b>8,925</b>	<b>(49,175)</b>	<b>(329,830)</b>	<b>-</b>	<b>-</b>	<b>(280,437)</b>
<b>Other financing sources (uses):</b>												
Proceeds from general obligation bonds	-	-	-	-	-	-	-	-	-	-	-	1,020,000
Payment of PREPA debt	(483,059)	-	-	-	-	-	-	-	-	-	-	(483,059)
Transfers in	381,201	-	40,759	-	-	-	-	-	49,111	-	-	471,071
Transfers (out)	(71,700)	(337,679)	(1,141)	-	-	-	(9,274)	-	(51,277)	-	-	(471,071)
<b>Total other financing resources (uses)</b>	<b>(173,558)</b>	<b>(337,679)</b>	<b>39,618</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9,274)</b>	<b>-</b>	<b>1,017,834</b>	<b>-</b>	<b>-</b>	<b>536,941</b>
<b>Net change in fund balances (deficit)</b>	<b>101,157</b>	<b>(573,392)</b>	<b>214,872</b>	<b>(124,613)</b>	<b>-</b>	<b>-</b>	<b>(349)</b>	<b>(49,175)</b>	<b>688,004</b>	<b>-</b>	<b>-</b>	<b>256,504</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>1,891,169</b>	<b>1,235,082</b>	<b>1,429,224</b>	<b>(95,026)</b>	<b>-</b>	<b>-</b>	<b>545,095</b>	<b>-</b>	<b>642,496</b>	<b>-</b>	<b>-</b>	<b>5,648,040</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 1,992,326</b>	<b>\$ 661,690</b>	<b>\$ 1,644,096</b>	<b>\$ (219,639)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 544,746</b>	<b>\$ (49,175)</b>	<b>\$ 1,330,500</b>	<b>\$ -</b>	<b>\$ (49,175)</b>	<b>\$ 5,904,544</b>

*Handwritten notes:*  
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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, 2012**

**Net change in fund balances (deficit) - total governmental funds: \$ 256,504**

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	\$ 2,534,188	
Less: current year depreciation	<u>(1,216,007)</u>	1,318,181

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	5,472	
Amortization of bond issuance costs	<u>(3,637)</u>	1,835

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

Christmas bonus reimbursement	73,496	
Property Taxes-General Fund	293,042	
Sales and use tax-General Fund	37,706	
License Tax - General Fund	1,250	
Sales and use tax-Debt Service Fund	17,691	
P.R. Electric Power Authority (PREPA)	422,866	
P.R. State Agency for Emergency and Disaster Management	14,550	
P.R. Law 52	3,140	
P.R. Department of Transportation and Public Works (DTOP)	116,711	
Federal grant - CDBG	<u>189,530</u>	1,169,982

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

Christmas bonus reimbursement-prior year	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) (prior year)	194,868	
P.R. Office of the Ombudsman for the Elderly (OPEA)	13,114	
P.R. Department of Transportation and Public Works (DTOP)	12,811	
P.R. Electric Power Authority (PREPA)	271,627	
Federal grant - CDBG	<u>64,916</u>	(678,464)

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

(1,020,000)

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:

(13,101)

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

Matured bonds principal payments (net change)		150,000
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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	493,000	
Other long term liabilities	<u>757,862</u>	1,250,862

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	(246,322)	
Christmas bonus	(146,991)	
Debt payment to P.R. Electric Power Authority	(634,298)	
Accrued interest (net change)	1,395	
Other	<u>(9,649)</u>	(1,035,865)

**Change in net assets of governmental activities: \$ 1,399,934**

The accompanying notes are an integral part of these statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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 a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

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

**1. *Financial reporting entity***

The financial reporting entity included in this report consists of the financial statements of the Municipality of 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, 2012**

**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 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.

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JUNE 30, 2012**

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

**Government-wide statements**

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

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

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

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

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

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

**Fund Statements**

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users (for Rural Development Corporation - Marine Facilities, Barrero Sanitary Sewer System, \$1,428,000 Loan Issuance and Ojo de Agua Hotel 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 for the acquisition of marine facilities to be used by citizens of the Municipality.

**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.

**COMMONWEALTH OF PUERTO RICO  
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**NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**\$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.

**Ojo de Agua Hotel Fund:** This fund is used to account for and report the expenditures for the construction of the municipal hotel "Ojo de Agua".

The governmental fund 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 of the end of the current fiscal period, except for reimbursement-based (expenditure-driven) grants for which the availability period is 90 days.

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

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 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.

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following:

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

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

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

**Notes to Financial Statements**

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

**Required Supplementary Information**

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

**3. *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. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards. 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.

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**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:

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**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.

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**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**

The GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54") 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. 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. 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.   |

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**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.

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**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 monthly deducted from advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Workers compensation insurance is also deducted from the monthly advances by the CRIM. Settled cases have not exceeded insurance coverage for any of the past three years.

**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 Financial Statements June 30, 2012**

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

<b>Statement</b>	<b>To be Adopted in Fiscal year ended,</b>
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
65 Items Previously Reported as Assets and Liabilities	June 30, 2014
66 Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62	June 30, 2014
67 Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25	June 30, 2014
68 Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27	June 30, 2015

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

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**NOTE B- DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial, 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 the 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 \$2,462,941 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 \$4,136,945.

**NOTE C- DUE FROM GOVERNMENTAL ENTITIES**

Amounts due from governmental entities as of June 30, 2012 follows:

	<b>Commonwealth Government</b>	<b>Federal Government</b>
<b><u>Major fund - General fund:</u></b>		
P.R. Electric Power Authority (PREPA)	\$ 531,741	\$ -
Municipal Revenue Collection Center (CRIM)- property taxes and intergovernmental subsidy(general fund)	293,042	-
P.R. Department of Education	48,226	-
P.R. Department of Treasury – Christmas bonus reimbursement	73,496	-
P.R. Department of Treasury – sales and use taxes-1% and Municipal Development fund	154,286	-
<b><u>Major fund – Debt service fund:</u></b>		
Municipal Revenue Collection Center (CRIM) – property taxes	84,719	-
P.R. Department of Treasury – sales and use taxes-Municipal Redemption Fund	58,698	-
<b><u>Major fund – CDBG fund:</u></b>		
Office of Commissioner of Municipal Affairs - CDBG	-	380,968
<b><u>Other governmental funds:</u></b>		
P.R. Department of Labor – Law No. 52	24,150	-
P.R. State Agency for Emergency and Disaster Management	14,550	-
P.R Department of Transportation	177,128	-

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**NOTE C- DUE FROM GOVERNMENTAL ENTITIES - Continued**

	<u>Commonwealth Government</u>	<u>Federal Government</u>
P.R. Department of Family – Child Care Program	-	46,152
P.R. Department of Family – Child Care Food Program	-	2,042
P.R. Office of the Ombudsman for the Elderly	-	51,809
Other	-	56
	<u>\$ 1,460,036</u>	<u>\$ 481,027</u>

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

**NOTE D- INTERFUND TRANSACTIONS**

**1. Due from/to other funds**

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

<u>Receivable Fund</u>	<u>Payable Funds</u>	<u>Amount</u>
General Fund	<b>Major Funds:</b>	
	CDBG	\$ 44,179
	Ojo de Agua Hotel	35,000
	<b>Other Governmental Funds:</b>	
	Child Care and Development Block Grant	55,430
	P.R. Department of Labor – Law No. 52	24,778
	P.R. Office of the Ombudsman for the Elderly (OPEA-OPTE)	57,423
	P. R. Department of Justice-Mitigation Plan Revision	14,550
Debt Service Fund	<b>Major Funds:</b>	
	General Fund	973
Total:		<u>\$ 232,333</u>

**2. Advances to other funds**

Advances to other funds in the amount of \$16,932 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 \$220,804 during fiscal year 2011-2012.

**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.

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**NOTE E- FUND BALANCE**

**1. Fund balance classifications**

The governmental fund balance classifications and amounts at June 30, 2012 are shown in the following table:

	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	Ojo de Agua Hotel	Other Governmental Funds	Total
<b>Nonspendable:</b>										
Advances to other funds	\$ -	\$ 16,932	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,932
	-	16,932	-	-	-	-	-	-	-	16,932
<b>Restricted:</b>										
General public works and sanitation	146,201	-	-	-	-	-	-	-	371,063	517,264
Sports, culture and recreation	4,699	-	-	-	-	-	-	-	-	4,699
Housing, welfare and community development	-	-	-	-	-	-	-	-	56,549	56,549
Debt service	-	-	1,644,096	-	-	-	-	-	-	1,644,096
Capital outlays	-	644,758	-	-	-	-	544,746	-	1,168,103	2,357,607
	150,900	644,758	1,644,096	-	-	-	544,746	-	1,595,715	4,580,215
<b>Committed:</b>										
General public works and sanitation	22,757	-	-	-	-	-	-	-	-	22,757
Capital outlays	100,000	-	-	-	-	-	-	-	-	100,000
General government and other purposes	194,562	-	-	-	-	-	-	-	-	194,562
	317,319	-	-	-	-	-	-	-	-	317,319
<b>Assigned:</b>										
General public works and sanitation	167,519	-	-	-	-	-	-	-	-	167,519
Public safety	232	-	-	-	-	-	-	-	-	232
Sports, culture and recreation	4,762	-	-	-	-	-	-	-	-	4,762
Capital outlays	150,000	-	-	-	-	-	-	-	-	150,000
General government and other purposes	75,872	-	-	-	-	-	-	-	-	75,872
	398,385	-	-	-	-	-	-	-	-	398,385
<b>Unassigned</b>	1,125,722	-	-	(219,639)	-	-	-	(49,175)	(265,215)	591,693
	\$ 1,992,326	\$ 661,690	\$ 1,644,096	\$ (219,639)	\$ -	\$ -	\$ 544,746	\$ (49,175)	\$ 1,330,500	\$ 5,904,544

**2. Fund balance deficits**

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

Funds	Fund balance – unassigned amount
<b>Major Funds:</b>	
Community Development Block Grant Program	\$ 219,639
Ojo de Agua Hotel	\$ 49,175
<b>Other Governmental Funds:</b>	
Improvements to Recreational Facilities–Barrero Community	\$ 177,128
Child Care and Development Block Grant Program	46,152
Law 52	3,026
OPEA-OPTE	23,191
Mitigation Plan Revision	14,550
Energy Efficiency Conservation Block Grant	1,168
	\$ 265,215

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.

**COMMONWEALTH OF PUERTO RICO  
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**NOTE F- CAPITAL ASSETS**

Capital assets and depreciation activity as of and for the year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 7,739,918	\$ 35,200	\$ -	\$ 7,775,118
Construction in progress	6,089,664	1,630,819	1,943,874	5,776,609
<b>Total capital assets not being depreciated:</b>	<u>13,829,582</u>	<u>1,666,019</u>	<u>1,943,874</u>	<u>13,551,727</u>
Capital assets, being depreciated:				
Land improvements	924,782	-	-	924,782
Buildings and building improvements	19,035,356	1,890,144	-	20,925,500
Infrastructure	9,791,058	616,771	15,099	10,392,730
Vehicles, machinery and equipment	7,272,021	305,128	65,634	7,511,515
<b>Total capital assets being depreciated</b>	<u>37,023,217</u>	<u>2,812,043</u>	<u>80,733</u>	<u>39,754,527</u>
<b>Less accumulated depreciation for:</b>				
Land improvements	115,326	48,117	-	163,443
Buildings and building improvements	4,517,111	440,559	-	4,957,670
Infrastructure	4,186,814	360,747	9,214	4,538,347
Vehicles, machinery and equipment	5,512,551	366,584	58,418	5,820,717
<b>Total accumulated depreciation</b>	<u>14,331,802</u>	<u>1,216,007</u>	<u>67,632</u>	<u>15,480,177</u>
<b>Total capital assets being depreciated, net</b>	<u>22,691,415</u>	<u>1,596,036</u>	<u>13,101</u>	<u>24,274,350</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 36,520,997</u>	<u>\$ 3,262,055</u>	<u>\$ 1,956,975</u>	<u>\$ 37,826,077</u>

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

<b>Governmental activities:</b>	
General government	\$ 226,978
Public works and sanitation	539,872
Public safety	59,019
Culture and recreation	361,246
Welfare and community development	28,555
Education	337
<b>Total depreciation expense, governmental activities</b>	<u>\$ 1,216,007</u>

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

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**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, 2012:

	Balance at July 1, 2011	Increases	Decreases	Balance at June 30, 2012	Due within one year
General, Special Obligation Bonds and Notes	\$ 7,344,000	\$ 1,020,000	\$ 493,000	\$ 7,871,000	\$ 646,000
Note payable to CRIM-Law No. 42	409,750	-	9,919	399,831	10,543
Note payable to CRIM-LIMS	11,244	-	11,244	-	-
Note payable to CRIM-financing of delinquent accounts	43,228	-	2,059	41,169	2,057
Line of credit - GDB	215,881	-	215,881	-	-
Compensated absences	1,197,090	246,322	96,240	1,347,172	110,880
Christmas Bonus	151,666	146,991	151,666	146,991	146,991
Payable to CRIM- property tax advances current	3,675	9,649	3,675	9,649	9,649
Payable to PREPA	380,502	634,298	483,059	531,741	320,308
	<u>\$ 9,757,036</u>	<u>\$ 2,057,260</u>	<u>\$ 1,466,743</u>	<u>\$ 10,347,553</u>	<u>\$ 1,246,428</u>

**2. General and special obligation bonds and notes**

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2012 amount to \$7,871,000. 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 has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of certain long-term debt issued for operational purposes (special obligation 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).

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**NOTE H- LONG-TERM DEBT- Continued**

Principal and interest payments of special obligation notes of \$705,000 and \$1,428,000 are made through the "Municipal Redemption Fund". A detail of the general and special obligation bonds and notes as of June 30, 2012 follows:

	<b>Outstanding Amount</b>
1994 public improvement bonds of \$721,000 due in annual installments of \$17,000 to \$52,000 through January 1, 2017; bearing interest at 2.43%	\$ 234,000
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% (5% at June 30, 2012)	515,000
2003 general obligation bonds of \$530,000 due-in annual installments of \$12,000 to \$35,000 through January 1, 2009; bearing interest at 4.25%	439,000
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% (2.43% at June 30, 2012)	68,000
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% (4.38% at June 30, 2012)	115,000
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% (2.43% at June 30, 2012)	190,000
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% (2.43% at June 30, 2012)	465,000
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% (2.43% at June 30, 2012)	400,000
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% (2.43% at June 30, 2012)	540,000
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% (2.43% at June 30, 2012)	1,270,000
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, 2012)	315,000
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, 2012)	1,035,000

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

	<b>Outstanding Amount</b>
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, 2012)	1,285,000
2012 general obligation bonds of \$625,000 due in annual installments of \$5,000 to \$40,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2012)	625,000
2012 general obligation bonds of \$395,000 due in annual installments of \$5,000 to \$25,000 through July 2, 2018; bearing interest at rates ranging from 6.00% to 7.50% (1.72% at June 30, 2012)	395,000
	<b>\$ 7,871,000</b>

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2012 follows:

<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 646,000	\$ 417,953
2014	576,000	452,053
2015	500,000	418,875
2016	514,000	384,268
2017	572,000	345,516
2018-2022	2,259,000	1,220,528
2023-2027	1,700,000	601,285
2028-2032	669,000	273,791
2033-2037	435,000	67,875
Totals	<b>\$ 7,871,000</b>	<b>\$ 4,182,144</b>

**3. Other long-term liabilities**

	<b>Outstanding Amount</b>
<b>Note payable to CRIM (Law No. 42)</b> – 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:	\$ 399,831

**COMMONWEALTH OF PUERTO RICO  
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**NOTE H- LONG-TERM DEBT – Continued**

**3. Other long-term liabilities**

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 10,543	\$ 24,579
2014	11,205	23,917
2015	11,909	23,213
2016	12,657	22,464
2017	13,453	21,669
2018-2022	81,055	94,552
2023-2027	109,927	65,681
2028-2032	149,082	26,525
Totals	<u>\$ 399,831</u>	<u>\$ 302,600</u>

**Outstanding  
Amount**

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

**41,169**

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,057	\$ 2,561
2014	2,059	2,433
2015	2,059	2,305
2016	2,059	2,177
2017	2,059	2,048
2018-2022	10,292	8,323
2023-2027	10,292	5,122
2028-2032	10,292	1,920
Totals	<u>\$ 41,169</u>	<u>\$ 26,889</u>

**COMMONWEALTH OF PUERTO RICO  
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**NOTE H- LONG-TERM DEBT – Continued**

	<b>Outstanding Amount</b>
<b>Compensated absences</b> – includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality’s commitment to fund such costs from future operations. The amount is paid with unrestricted funds	1,347,172
<b>Christmas Bonus</b> – represents the accrued portion corresponding to fiscal year 2012 of the Christmas bonus to be paid in December 2012.	146,991
<b>Payable to CRIM, property tax advances</b> – represents the amount reported by CRIM of the settlement of excess of advances over actual collections of property taxes applicable to fiscal year 2011. (See related note K)	9,649
<b>Payable to PREPA</b> – 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 2010-2011 the Municipality’s annual energy charges amounts to \$1,188,540 but the CELI obligation amounted to \$554,241. The excess amount of \$634,298 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, 2012 the outstanding amount of \$531,741 includes a balance of \$108,875 from fiscal year 2010 and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:	531,741

<b>June 30</b>	<b>Principal</b>
2013	\$ 320,308
2014	211,433
<b>Totals</b>	<b>\$ 531,741</b>

**NOTE I – Line of Credit**

The Municipality has an approved line of credit totalling \$690,000 with the Governmental Development Bank of Puerto Rico under which the Municipality may borrow at an interest rate of 1.50% over prime rate with a minimum of 6% and a maximum of 12%. The line of credit will be used for the construction of a Municipal hotel, expires twenty four months after the date of its first disbursement and will be repaid through the issuance of a revenue bond.

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**NOTE I – Line of Credit – Continued**

There were no amounts outstanding under this line of credit as of June 30, 2012.

**NOTE J- 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
<b><u>Major fund - general fund:</u></b>		
Puerto Rico Department of Treasury – Christmas Bonus Reimbursement	\$ 73,496	\$ -
P.R. Electric Power Authority (PREPA)	531,741	-
Municipal Revenue Collection Center (CRIM) – property taxes (general fund)	293,042	-
Municipal Revenue Collection Center (CRIM) – sales and use taxes (general fund)	37,706	-
<b><u>Major fund – debt service fund:</u></b>		
Municipal Revenue Collection Center (CRIM) – sales and use taxes, Municipal Redemption Fund (debt service fund)	17,691	-
<b><u>Major fund – Community Development Block Grant fund:</u></b>		
Office of Commissioner of Municipal Affairs -CDBG	-	219,640
<b><u>Major fund – Rural Development Corporation Marine Facilities</u></b>		
Rural Development Corporation – cash advances	320,714	-
<b><u>Major fund – Barrero Sanitary Sewer System</u></b>		
Rural Development – cash advances	-	18,333
<b><u>Other governmental funds</u></b>		
P.R. Police Department – Public Order Code	27,469	-
P.R. Law 52	3,140	-
P.R. State Agency for Emergency and Disaster Management	14,550	-
Improvements of Recreational Facilities – Barrero Community	177,128	-
P.R. Department of Justice - JAG	-	37,500
Child Care Program	-	46,152
P.R. Office of the Ombudsman for the Elderly	-	40,087
ARRA – Homeless Prevention and Rapid Re-housing Program Fund	-	2,859
	\$ 1,496,677	\$ 364,571

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**NOTE K – 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 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, 2012 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

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

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

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. A payable of \$9,649 resulting from the settlement of fiscal year 2010-2011 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 \$293,042 from the preliminary settlement of fiscal 2011-2012 was recorded as deferred revenue since is not available are required by current standards.

**COMMONWEALTH OF PUERTO RICO  
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**NOTE K – PROPERTY TAXES - Continued**

On June 16, 2011 the Commonwealth's Legislature approved Act No. 94 which established an incentive plan (amnesty) for the payment of property tax debts. The Act, applicable to fiscal periods 2010-2011 and before, provided participants a 100% waiver on interest and penalties and a 50% waiver over principal debt in excess of 10 years. Funds will be collected by the CRIM and remitted to the Municipalities. During the year 2011-2012 amnesty collections of \$141,666 and \$46,693 were recorded in the general and debt service funds, respectively.

**NOTE L – 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, 2012, the tax rates were as follows:

Financial business – 1.50% of gross revenues  
Other organizations - .50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$381,477 is recorded as deferred revenues.

**NOTE M – 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 sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale 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  
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**NOTE M – 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 to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

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 \$65,009 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%); \$89,277 and \$58,698 represents amounts of "Municipal Development Fund" and "Municipal Redemption Fund", respectively, collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30. The amount of \$17,691 (related to Municipal Redemption Fund) is recorded as deferred revenue since is not available as required by current standards.

**NOTE N – INTERGOVERNMENTAL AND OTHER REVENUES**

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

	<b>Amount</b>
Amount of municipal equalization fund and subsidy sent by CRIM	\$ 3,451,456
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	1,858,586
Reimbursement from Commonwealth Government - Christmas Bonus expenditures	128,511
	<b>\$ 5,438,553</b>

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

**COMMONWEALTH OF PUERTO RICO  
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**NOTE O – RETIREMENT PLAN**

**1. Plan description**

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

Law No. 305 of September 24, 1999 amended the Act. No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions have not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE O – RETIREMENT PLAN - Continued**

**2. Funding policy**

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 10.275% 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>
2012	\$ 95,547	\$ 208,309
2011	\$ 94,712	\$ 192,341
2010	\$ 99,327	\$ 201,391

**NOTE P – POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note O, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year 2012, costs related to these post employment benefits amounted to \$68,936. These benefits are recorded as expenditures in the general fund.

**NOTE Q – 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 \$38,676. 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, 2012 the Municipality has commitments of \$1,422,540 for design, construction, improvements or renovation of certain municipal facilities.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE Q – COMMITMENTS – Continued**

**3. Encumbrances**

The Municipality has encumbrances outstanding which represent the estimated amount of expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. Outstanding encumbrances as of June 30, 2012 in the general fund represent unassigned amounts that are encumbered and are classified by management as assigned fund balance. Purpose classification follows:

<b>Purpose</b>	<b>General Fund- assigned fund balance</b>
General public works and sanitation	\$ 24,256
Public safety	232
Sports, culture and recreation	4,762
General government and other purposes	36,772
	<b>\$ 66,022</b>

Fund balance of major and other governmental funds (special revenue, capital project and debt service funds) is classified as restricted, some or all of which may be encumbered. Encumbrances of restricted fund balance are not reported separately from this classification because the encumbrance does not further restrict the purpose for which the resources may be used.

**NOTE R – 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.

***REQUIRED SUPPLEMENTARY INFORMATION***

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property taxes	\$ 1,819,942	\$ 1,819,942	\$ 1,829,591	\$ 9,649
Municipal license taxes	505,000	505,000	458,441	(46,559)
Sales and use taxes	730,000	730,000	859,868	129,868
Intergovernmental	4,966,165	4,966,165	4,955,494	(10,671)
Fees, fines and charges for services	667,920	667,920	460,574	(207,346)
Interest	60,000	60,000	61,464	1,464
Other	50,973	50,973	48,360	(2,613)
<b>Total revenues</b>	<b>8,800,000</b>	<b>8,800,000</b>	<b>8,673,792</b>	<b>(126,208)</b>
<b>EXPENDITURES:</b>				
Current:				
General government	4,179,647	4,100,599	4,045,279	55,320
Public works and sanitation	2,469,572	2,563,940	2,535,803	28,137
Public safety	955,763	824,953	821,708	3,245
Culture and recreation	490,105	480,765	474,447	6,318
Health	339,565	320,565	320,368	197
Welfare and community development	311,873	355,703	349,716	5,987
<b>Total expenditures</b>	<b>8,746,525</b>	<b>8,646,525</b>	<b>8,547,321</b>	<b>99,204</b>
<b>Excess of revenues over expenditures</b>	<b>53,475</b>	<b>153,475</b>	<b>126,471</b>	<b>(27,004)</b>
<b>Other financing uses:</b>				
Transfers out	(53,475)	(153,475)	(140,458)	13,017
<b>Total other financing uses</b>	<b>(53,475)</b>	<b>(153,475)</b>	<b>(140,458)</b>	<b>13,017</b>
<b>Excess of revenues over expenditures and other financing uses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (13,987)</b>	<b>\$ (13,987)</b>

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, 2012**

**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, 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, 2012**

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

<b>Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):</b>	<b>\$ (13,987)</b>
Budget to GAAP differences	
<b>Entity differences</b>	
Non-budgeted funds recorded as revenues for financial reporting purposes	202,418
Non-budgeted funds recorded as expenditures for financial reporting	(711,455)
Non-budgeted transfers in	100,000
Non-budgeted transfers out	(21,589)
<b>Basis of accounting differences</b>	
Revenues recorded for financial reporting purposes but not in budgetary basis	1,130,549
Revenues recorded in budgetary basis purposes but not in financial reporting	(58,745)
Expenditures recorded in budgetary basis but not for financial reporting purposes	16,446
Expenditures recorded for financial reporting purposes but not in budgetary basis	(546,802)
<b>Timing differences</b>	
Current year encumbrances recorded as expenditures for budgetary reporting purposes	44,755
Prior year encumbrances recorded as expenditures for financial reporting purposes	(40,433)
<b>Net change in fund balance (GAAP basis)</b>	<b><u>\$ 101,157</u></b>

***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, 2012

Line Item No.	Description	14.871
		Housing Choice Vouchers
<b>Balance Sheet</b>		
111	Cash - unrestricted	\$ 8,482
113	Cash - other restricted	\$ 14,805
100	<b>Total cash</b>	<b>\$ 23,287</b>
122	Accounts receivable - HUD other projects	\$ 56
126.2	Allowance for doubtful accounts - other	\$ -
120	Total receivables, net of allowance for doubtful accounts	\$ 56
150	<b>Total Current Assets</b>	<b>\$ 23,343</b>
164	Furniture, equipment and machinery - administration	\$ 2,009
166	Accumulated depreciation	\$ (1,808)
160	Total capital assets, net of accumulated depreciation	\$ 201
180	<b>Total Non-current Assets</b>	<b>\$ 201</b>
190	<b>Total Assets</b>	<b>\$ 23,544</b>
312	Accounts payable <= 90 days	\$ -
322	Accrued compensated absences - current portion	\$ 790
333	Accounts payable - other government	\$ -
341	Tenant security deposits	\$ -
342	Deferred revenue	\$ -
345	Other current liabilities	\$ -
347	Inter-program - due to	\$ -
310	<b>Total Current Liabilities</b>	<b>\$ 790</b>
353	Non-current liabilities - other	\$ -
354	Accrued compensated absences - non current	\$ -
350	<b>Total Non-current Liabilities</b>	<b>\$ -</b>
300	<b>Total Liabilities</b>	<b>\$ 790</b>
508.1	Invested in Capital Assets, Net of Related Debt	\$ 201
511.1	Restricted Net Assets	\$ 8,382
512.1	Unrestricted Net Assets	\$ 14,171
513	<b>Total Equity/Net Assets</b>	<b>\$ 22,754</b>
600	<b>Total Liabilities and Equity/Net Assets</b>	<b>\$ 23,544</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON

SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE  
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION  
JUNE 30, 2012

Line Item No.	Description	14.871
		Housing Choice Vouchers
<b>Income Statement</b>		
70600-010	Housing assistance payments	\$ 116,505
70600-020	Ongoing administrative fees earned	\$ 22,952
70600-070	Admin fee calculation description	
70600	<b>HUD PHA operating grants</b>	<b>\$ 139,457</b>
71500	Other revenue	\$ 7,670
700	<b>Total Revenue</b>	<b>\$ 147,127</b>
91100	Administrative salaries	\$ 13,760
91500	Employee benefit contributions- administrative	\$ 5,056
91600	Office expenses	\$ 414
91000	<b>Total Operating - Administrative</b>	<b>\$ 19,230</b>
96200	Other general expenses	
96210	Compensated absences	\$ -
96000	<b>Total Other General Expenses</b>	<b>\$ -</b>
96900	<b>Total Operating Expenses</b>	<b>\$ 19,230</b>
97000	<b>Excess Revenue Over Operating Expenses</b>	<b>\$ 127,897</b>
97300-050	All Other	\$ 121,541
97300	<b>Housing assistance payments</b>	<b>\$ 121,541</b>
97350	<b>HAP Portability-in</b>	<b>\$ 6,629</b>
97400	Depreciation expense	\$ 22
900	<b>Total Expenses</b>	<b>\$ 147,422</b>
10000	<b>Excess (Deficiency) of Revenue Over (Under) Expenses</b>	<b>\$ (295)</b>
11030	Beginning equity	\$ 23,049
11770-001	Administrative Fee Equity - Beginning Balance	\$ 9,631
11170-010	Administrative Fee Revenue	\$ 22,952
11170-020	Hard to House Fee Revenue	\$ -
11170-021	FSS Coordinator Grant	\$ -
11170-030	Audit Costs	\$ -
11170-040	Investment Income	\$ -
11170-045	Fraud Recovery Revenue	\$ -
11170-050	Other Revenue	\$ 7,670
11170-051	Comment For Other Revenue	This amount corresponds to the administrative fees earned on the portability-in vouchers administered by the Municipality (\$1,041) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 11-12 (\$6,629)
11170-060	Total Admin Fee Revenues	\$ 30,622
11170-080	Total Operating Expenses	\$ 19,230
11170-090	Depreciation	\$ 22
11170-095	Housing Assistance Portability In	\$ 6,629
11170-110	Total Expenses	\$ 25,881
11170-002	Net Administrative Fee	\$ 4,741
11170-003	Administrative Fee Equity - Ending Balance	\$ 14,372
11170	<b>Administrative Fee Equity</b>	<b>\$ 14,372</b>
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ 13,418
11180-010	Housing Assistance Payments Revenues	\$ 116,505
11180-015	Fraud Recovery Revenue	\$ -
11180-020	Other Revenue	\$ -
11180-021	Comment For Other Revenue	
11180-025	Investment Income	\$ -
11180-030	Total HAP Revenues	\$ 116,505
11180-080	Housing Assistance Payments	\$ 121,541
11180-100	Total Housing Assistance Payments Expenses	\$ 121,541
11180-002	Net Housing Assistance Payments	\$ (5,036)
11180-003	Housing Assistance Payments Equity - Ending Balance	\$ 8,382
11180	<b>Housing Assistance Payments Equity</b>	<b>\$ 8,382</b>
11190-210	Total ACC HCV Units	408
11190	<b>Unit Months Available</b>	<b>408</b>
11210	<b>Unit Months Leased</b>	<b>396</b>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF RINCON**  
**NOTES TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE**  
**June 30, 2012**

**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.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 is prepared using the accrual basis of accounting, as required by REAC regulations.

*SINGLE AUDIT SECTION*

*SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2012

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)
<b><u>U.S. Department of Agriculture</u></b>			
Direct programs:			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 69,905
Passed-through program from:			
<u>P.R. Department of Education</u> Child and Adult Care Food Program	10.558	CCC-110	19,037
<b>Subtotal U.S. Department of Agriculture</b>			<u>88,942</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Direct programs:			
Section 8 Housing Choice Vouchers Program	14.871	N/A	139,457
Passed-through programs from:			
<u>Office of Commissioner of Municipal Affairs:</u> Community Development Block Grant / State's Program (State-Administered Small Cities Program)	14.228	AB - 53, FD - 53	1,561,304
<u>P.R. Department of Family:</u> ARRA - Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.262	122-2010-000229	116,378
<b>Subtotal U.S. Department of Housing and Urban Development</b>			<u>1,817,139</u>
<b><u>U.S. Department of Justice</u></b>			
Passed-through programs 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	36,825
<b><u>U.S. Department of Energy</u></b>			
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	106,798
<b><u>U.S. Department of Health and Human Services</u></b>			
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	110211R2, 120125R2	2,888
<b>Aging Cluster:</b>			
Special Programs for the Aging_Tittle III Part B_ Grants for Supportive Services and Senior Centers	93.044	110211R2, 120125R2	15,033
Special Programs for the Aging_Tittle III, Part C_ Nutrition Services	93.045	110211R2, 120125R2	98,222
Nutrition Services Incentive Program	93.053	110211R2, 120125R2	18,856
<b>Total Aging Cluster:</b>			<u>132,111</u>
<u>P.R. Department of Family - Families and Children Administration:</u> Child Care and Development Block Grant	93.575	241-2011-000252, 241-2012-000045	78,523
<b>Subtotal U.S. Department of Health and Human Services:</b>			<u>213,522</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 2,263,226</u></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2012**

**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, 2012. 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, except for Section 8 Housing Choice Voucher Program (HCV). 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. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

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	\$ -	\$ -	\$ 19,037
10.760	-	69,905	-
14.228	1,561,304	-	-
14.871	-	-	139,457
ARRA – 14.262	-	-	116,378
ARRA – 16.803	-	-	36,825
ARRA – 81.128	-	-	106,798
93.043	-	-	2,888
93.044	-	-	15,033
93.045	-	-	98,222
93.053	-	-	18,856
93.575	-	-	78,523
Total federal awards expenditures	1,561,304	69,905	632,017
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program	-	-	7,670
Non-federal awards expenditures	-	-	643,629
Total expenditures, fund statements	<u>\$ 1,561,304</u>	<u>\$ 69,905</u>	<u>\$ 1,283,316</u>

# VALDES, GARCIA , MARIN & MARTINEZ, LLP

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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 Municipality of Rincón (the Municipality), as of and for the year ended June 30, 2012, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 11, 2013. 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**

Management of the Municipality is responsible for establishing and maintaining effective 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 previously.

### **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, Ltd*

San Juan, Puerto Rico  
March 11, 2013

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to the original

# 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 the Municipality's major federal program for the year ended June 30, 2012. The Municipality's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program 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 its major federal program for the year ended June 30, 2012.

### **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 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, 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 11, 2013

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Section I - Summary of Audit Results**

**FISCAL YEAR ENDED JUNE 30, 2012**

A. Summary of audit results:

**Part I - Financial Statements**

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

**Internal control over Financial Reporting**

2. Significant deficiencies identified?  Yes  No
3. Significant deficiencies reported as material weaknesses?  Yes  None reported
4. Material noncompliance disclosed?  Yes  No

**Part II - Federal Awards**

**Internal control over Major Programs**

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

5. Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants/State's Program

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FISCAL YEAR ENDED JUNE 30, 2012**

**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, 2012**

**Section III - Federal Awards Findings and Questioned Costs**

Finding

No matters reported.