



**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, 2013***



***Mr. Carlos López-Bonilla***

***Mayor***

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

***Finance Director***



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON**

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*FINANCIAL SECTION*

*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

### **Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***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, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 14 and 52 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The Financial Data Schedule supplementary information on pages 55 through 57 is required by the Uniform Reporting Standards of the Department of Housing and Urban Development, and is also not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and the Financial Data Schedule supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the Financial Data Schedule supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2014, 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* in considering Municipality's internal control over financial reporting and compliance.

*Valdés, Blanca, Marín & Martínez LLP*

San Juan, Puerto Rico  
March 10, 2014

Stamp 91683 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, 2013**

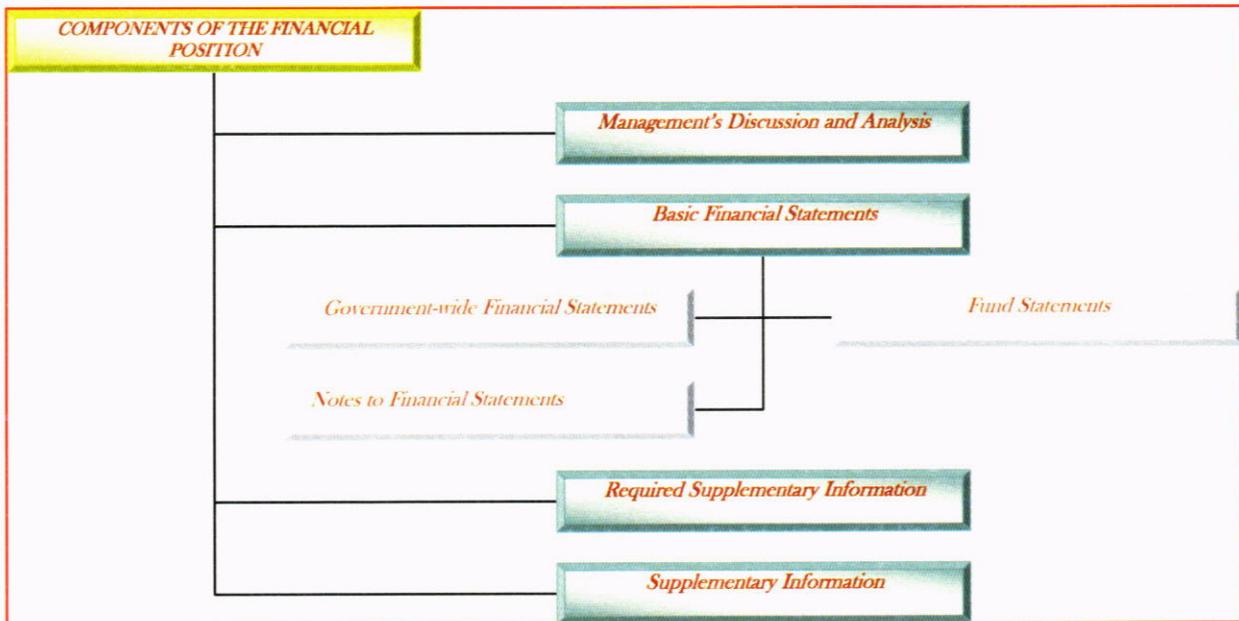
The discussion and analysis of the Municipality of Rincon's financial performance provides an overall review of the Municipality's financial activities for the year ended June 30, 2013. The intent of this discussion and analysis is to look at the Municipality's financial performance as a whole; this 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**

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2013 by \$33,680,106 (net position). Of this amount, \$75,045 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- Revenues decreased 3% and expenses increased 26% when compared with fiscal year 2012. As a result, the net position decreased \$2,132,284 or 6% with respect to the prior year restated net position.
- A net change in the fund balances of the Municipality's governmental funds of \$686,384 in the fiscal year 2013 resulted in reported ending fund balances of \$5,538,871, decreasing 11% with respect to 2012 year. Approximately 31% of the total fund balances is unrestricted (committed, assigned or unassigned).
- For the fiscal year 2013, the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$627,341. The unassigned fund balance amounts to \$1,445,208 or an increase of 28% as compared to 2012.
- The investment in capital assets as of June 30, 2013 was \$35,772,726 (net of depreciation).
- Long-term debt decreased to \$9,686,557 or approximately 6% with respect to the prior year.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$206,558.

**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.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

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 Position* presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in the Municipality's net position 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 position 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.

The government-wide statements report as governmental activities the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, health, welfare 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

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 that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures; or based on the Municipality's official criteria if the fund is particularly important to financial statement users. 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.

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

**Net Position**

The following table presents a summary of the Statements of Net Position as of June 30, 2013 and 2012:

**TABLE 1**  
*Summary Statement of Net Position  
As of June 30,*

	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current and other assets	\$ 9,531,787	\$ 10,594,705
Capital assets	35,772,726	37,826,077
<b>Total assets</b>	<u>45,304,513</u>	<u>48,420,782</u>
<b>Liabilities</b>		
Current and other liabilities	1,937,850	2,260,839
Long-term liabilities	9,686,557	10,347,553
<b>Total liabilities</b>	<u>11,624,407</u>	<u>12,608,392</u>
<b>Net Position</b>		
Net investment in capital assets	29,375,836	32,234,852
Restricted	4,229,225	4,130,324
Unrestricted (deficit)	75,045	(552,786)
<b>Total net position</b>	<u>\$ 33,680,106</u>	<u>\$ 35,812,390</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

Net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) serve as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. At June 30, 2013, assets exceeded its liabilities by \$33,680,106. Of this amount, \$75,045 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors. Restricted net position represents resources that are subject to external restrictions on how they may be used.

The largest portion of the Municipality's net position (87%) reflects its investment in capital assets (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.

Net position reported a decrease of 6% with respect to fiscal period 2012. The most significant transaction that causes this negative variance is the donation of an infrastructure capital asset to the Puerto Rico Aqueduct and Sewer Authority ("PRASA"). As more detailed in Note F, the Municipality entered into agreements with agencies and instrumentalities of the Commonwealth to perform the construction of certain infrastructure projects which are included as part of the Municipality's capital assets until construction is completed in which they are recorded as an expense in the Statement of Activities and transferred to the applicable agency. During the fiscal year 2012-2013 the Municipality transferred to PRASA the "Barrero Sanitary Sewer System", which total cost amounting to \$2,689,497 was recorded as public works and sanitation expense in the Statement of Activities. This transaction caused an increase of 26% in expenses as compared with 2012 year and caused the general decrease in net position versus 2012 fiscal year.

***Changes in net position***

The following table summarizes the changes in net position for the fiscal years ended 2013 and 2012:

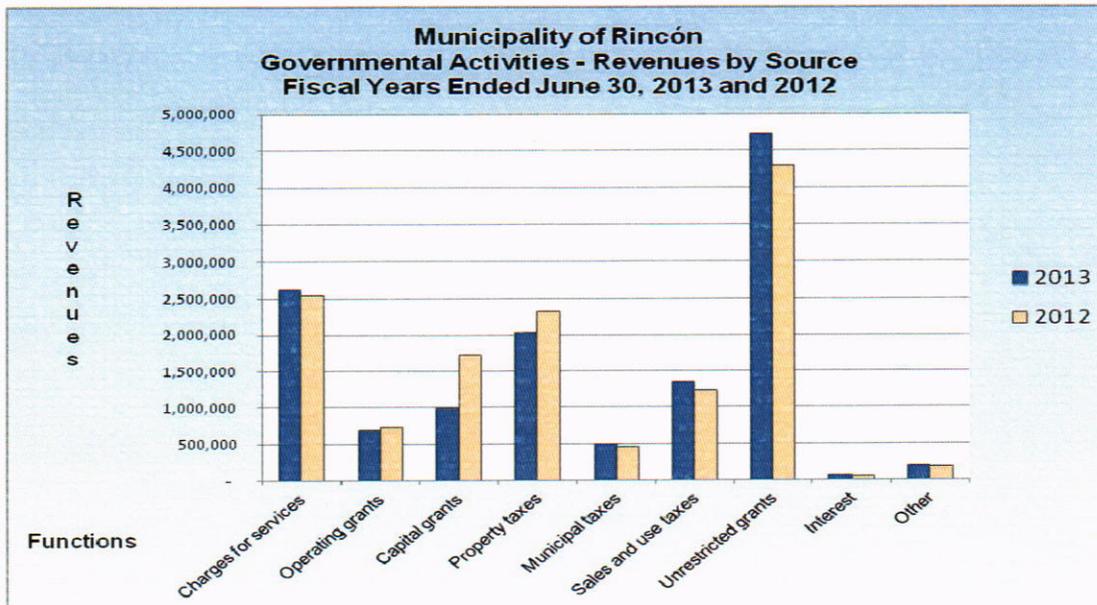
**TABLE 2**  
***Summary of Changes in Net Position***  
***As of June 30,***

	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012</b>
<b>Program revenues:</b>		
Fees, fines and charges for services	\$ 2,628,182	\$ 2,542,369
Operating grants and contributions	686,853	723,216
Capital grants and contributions	989,337	1,739,629
<b>General revenues:</b>		
Property taxes	2,038,702	2,321,209
Municipal license taxes	499,237	457,824
Sales and use taxes	1,343,936	1,232,388
Grants and contributions not restricted to specific programs	4,730,788	4,305,555
Interest	62,912	62,109
Other	203,217	182,320
<b>Total revenues</b>	<b>\$ 13,183,164</b>	<b>\$ 13,566,619</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

<i>Summary of Changes in Net Position As of June 30,</i>		
	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012</b>
<b>Expenses:</b>		
General government	\$ 5,392,754	\$ 5,272,315
Public works and sanitation	6,472,412	3,423,090
Public safety	978,070	984,669
Culture and recreation	869,954	835,702
Health	320,817	320,704
Welfare and community development	960,715	1,018,903
Education	4,350	4,507
Interest on long-term debt	316,376	306,795
<b>Total expenses</b>	<b>15,315,448</b>	<b>12,166,685</b>
<b>Change in net position</b>	<b>(2,132,284)</b>	<b>1,399,934</b>
<b>Net position-beginning of year, as restated</b>	<b>35,812,390</b>	<b>34,412,456</b>
<b>Net position-end of year</b>	<b>\$ 33,680,106</b>	<b>\$ 35,812,390</b>

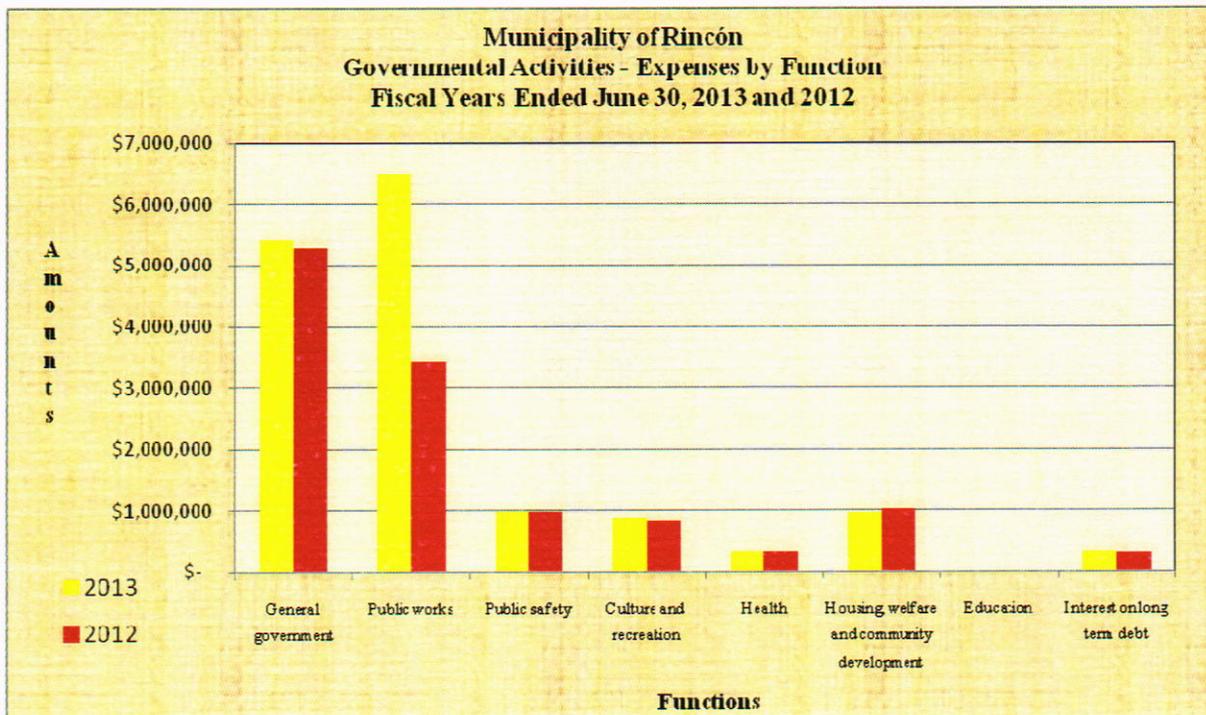
The four major sources of revenues of the Municipality in fiscal year 2013 are: unrestricted grants and contributions (36%), charges for services (20%), property taxes (15%) and sales and use taxes (10%). Revenues decreased 3%. This net decrease is due mainly to a 43% decrease in capital grants revenue due to fewer costs incurred by CDBG, an expenditure-driven grant. Since CDBG income is recognized as expenditures are incurred, less revenue was recorded during 2013 as compared with 2012. In addition, property taxes reports a decrease of 12% due to tax amnesty income received in 2012 and not in 2013 and less excess of property tax as a result of the final settlement of 2013 fiscal period. The following **Figure 1** illustrates the revenue comparison between 2013 and 2012:



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

The Municipality's expenses cover a range of services. The largest expenses are public works and sanitation with 42% and general government with 35%.

Total expenses increased 26% when compared with fiscal year 2012. The main reason of this is an increase of 89% in public works and sanitation function due to the transfer to PRASA of the "Barrero Sanitary Sewer System", which total cost amounting to \$2,689,497 was recorded as public works and sanitation expense in the Statement of Activities. As a result, the net position decreased \$2,132,284 or 6% with respect to the prior year restated net position. The following **Figure 2** illustrates the expenses comparison between 2013 and 2012:



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 direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. The following table discloses 2013 and 2012 expenses net of program revenue and the general revenues available to finance remaining costs:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

**TABLE 3**

<i>Expenses Net of Program Revenues As of June 30, 2013</i>		
<b>Net expenses</b>	<b>2013</b>	<b>2012</b>
General government	\$ (2,526,019)	\$ (2,488,437)
Public works and sanitation	(5,764,039)	(1,896,549)
Public safety	(872,742)	(816,916)
Culture and recreation	(859,254)	(717,191)
Health	(320,817)	(320,704)
Welfare and community development	(347,479)	(610,372)
Education	(4,350)	(4,507)
Interest on long term debt	(316,376)	(306,795)
<b>Total expenses, net of program revenues</b>	<b>(11,011,076)</b>	<b>(7,161,471)</b>
<b>General revenues</b>		
Taxes	3,881,875	4,011,421
Grants and contributions not restricted to specific programs	4,730,788	4,305,555
Interest and other	266,129	244,429
<b>Total general revenues</b>	<b>8,878,792</b>	<b>8,561,405</b>
<b>Change in net position</b>	<b>\$ (2,132,284)</b>	<b>\$ 1,399,934</b>

As opposed to the previous year, the net cost of services \$(11,011,076) was not covered by other general revenues. As described in the financial analysis of net position, during the fiscal year 2012-2013 the Municipality transferred to PRASA the "Barrero Sanitary Sewer System", which total cost amounting to \$2,689,497 was recorded as public works and sanitation expense in the statement of activities. This transaction caused the general decrease in net position in 2013 versus 2012 fiscal year.

**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 as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party.

For the fiscal year ended June 30, 2013, the governmental funds reported ending fund balances of \$5,538,871, a net decrease of 11% in comparison with the prior year. Of the total fund balances, \$1,739,513 (or 31%) constitutes unrestricted fund balance, of which \$672,794 (or 12%) are unassigned funds. The remainder of the fund balances is restricted to indicate that it is not available for new spending. Following is a summary of the financial analysis of the Municipality's major funds:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

- ***General Fund***

The general fund is the operating fund of the Municipality. The fund balance of the general fund represents approximately 47% of the total ending fund balances. Of the total fund balance, 4% or \$107,740 is restricted mainly to finance the maintenance of the sunset village facilities as required by grant agreement; 22% of the fund balance is committed and 18% is assigned for public works, sanitation and general government purposes. The remainder of the unrestricted fund balance of \$1,445,208 is unassigned fund balance, which represents 56% of the total fund balance of the general fund. Unassigned fund balance increased 28% with respect to the prior year.

During the fiscal year the fund balances of the general fund increased by \$627,341. The main sources of revenues of the general fund in fiscal year 2013 are: intergovernmental subsidies from the Commonwealth with 44%, taxes (property, sales and use and municipal license taxes) with 28% and charges for services with 25%. Revenues increased 9% in comparison to 2012 due to increases in taxes, intergovernmental revenues and charges for services. The largest expenditures of the general fund are public works and sanitation with 47%, general government with 31% and public safety with 9%. Expenditures decreased slightly by .05%.

- ***Commonwealth Legislature Resolutions Fund***

This fund report revenue sources from grants provided by the Commonwealth's Legislature restricted for specific purposes. During the 2013 the fund balance decreased \$155,364. The fund received additional grants of \$170,000. Amounts were expended in public works, welfare projects and capital outlays. There were no significant expenditures with respect to the previous year operation.

- ***Debt Service Fund***

The debt service fund had an increase in fund balance during the current year of \$240,386 to bring the year end fund balance to \$1,884,482, which represents 34% of total fund balances. The increase essentially results from a decrease in principal debt payments. Revenues decreased slightly 2% on property and sales taxes deposited in the redemption funds.

- ***USHUD – Community Development Block Grant Program Fund (“CDBG”)***

With respect to previous year, the CDBG fund operation presents a decrease in expenditures. Of the two major projects financed with CDBG funds, in one of them the Municipality incurred less costs in 2013 (“Construccion Facilidades Deportivas Bo. Cruces”) and the other one was finished during the year (“Proyecto Centro Multidisciplinario”). Since revenues are recorded as expenditures are incurred, the fund presents a revenue decrease. The fund balance presents a deficit as liabilities and deferred inflows of resources exceed assets for unavailable revenues recorded.

- ***Rural Development Corporation (CDR) – Marine Facilities***

There was no significant change during the 2013 year. Management decided to record the fund as major since the project will begin the construction process in next fiscal period.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

- ***GDB \$690,000 Line of Credit – Ojo de Agua Hotel Fund***

There was no significant change during the 2013 year. During the year the fund incurred soil studies and design costs. Management decided to record this fund as major for the importance of this project to the Municipality's operations.

- ***P.R. Department of Transportation Fund ("DTOP")***

During the year the fund incurred costs amounting to \$145,746 financed with a grant from the Federal Transit Administration. The fund was recorded as an other governmental fund in 2012.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The general fund original budget for the fiscal year 2012-2013 presented a 2% increase with respect to the prior year budget. Amendments of \$450,000 increasing the original budget to \$9,400,000 were approved by the Municipal Legislature. Actual revenues exceeded revised budgeted revenues by \$56,743 (net). The Municipality also reported a positive variance of \$148,831 between the revised budgeted appropriations and actual expenditures. Actual revenues exceeded actual expenditures by \$206,558.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets**

At the end of the fiscal year, the Municipality has invested \$35,772,726 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net decrease of 5% in comparison with prior year.

**TABLE 4**

<i>Capital Assets, net As of June 30,</i>		
	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012</b>
<b>Non-depreciable assets:</b>		
Land	\$ 7,960,293	\$ 7,775,118
Construction in progress	2,651,211	5,776,609
<b>Depreciable assets (net):</b>		
Land improvements	713,863	761,339
Buildings and buildings improvements	16,637,218	15,967,830
Infrastructure	5,904,012	5,854,383
Vehicles, machinery and equipment	1,906,129	1,690,798
<b>Total</b>	<b>\$ 35,772,726</b>	<b>\$ 37,826,077</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

The Municipality's major capital projects that were still in construction and the related construction in progress cost as of June 30, 2013 are as follows:

- Facilidades Recreativas Sector Emiliano, Bo. Cruces- \$1,356,885
- Construction of recreational facilities on Barrero Ward – \$738,517
- Rio Grande Residential Development - \$281,061
- "Ojo de Agua" Hotel - \$75,549

During the fiscal year 2012-2013 the Municipality transferred to PRASA the "Barrero Sanitary Sewer System", which total cost amounting to \$2,689,497 was recorded as public works and sanitation expense in the Statement of Activities. In addition, a major project "Proyecto Centro Multidisciplinario" for a total cost of \$1,121,796 was finished and transferred from construction in progress to building function. Equipment for a total amount of \$527,527 was placed in use during 2013 including two cars for a total cost of \$72,873 each, and a compaction body truck for a total cost of \$122,495.

The Municipality's fiscal year 2013-2014 capital budget calls for a significant amount of projects including the conclusion of the Recreational Facilities in Bo Cruces with an estimated total cost of \$1,600,000 and the conclusion of the construction of recreational facilities in Barrero Ward with an estimated total cost of \$830,000. These projects will be financed through Federal and Commonwealth grants, funds from the Commonwealth Legislature, general obligation bonds and/or municipal funds.

More detailed information about the Municipality's capital assets is presented in Note F to the financial statements.

**Long-term debt**

The following is a summary of the Municipality's outstanding debt as of June 30, 2013 and 2012:

**TABLE 5**

<i>Outstanding Long-term Debt Fiscal years ended June 30,</i>		
	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012</b>
General and special obligation bonds and notes	\$ 7,225,000	\$ 7,871,000
Note payable to CRIM – Law No. 42	389,288	399,831
Note payable to CRIM – financing of delinquent accounts	39,112	41,169
Payable to PREPA	566,675	531,741
Compensated absences	1,306,779	1,347,172
Christmas bonus payable	150,054	146,991
Payable to CRIM from property tax advances	9,649	9,649
<b>Total</b>	<u>\$ 9,686,557</u>	<u>\$ 10,347,553</u>

At year-end, the Municipality had \$7,225,000 in general and special bonds and notes, a decrease with respect to the prior year since it has not issued long-term debt during 2013. The Municipality has no significant change with respect to other long-term debts (other than general obligation bonds and notes) with respect to 2012 year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2013**

More detailed information about the Municipality's long-term liabilities is presented in Note G of the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality's officials considered certain factors when establishing the fiscal year's 2013-2014 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth or decline in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate at June 2013 stands at 14.7%, and the Commonwealth rate stands at 13.8%.

For year 2013-2014 the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are \$9,200,000 representing an increase of approximately 3% with respect to prior year estimates. Budgeted expenditures are expected to rise according to the increase of budgeted revenues. If these estimates are realized, the Municipality's budgetary general fund balance is expected to increase modestly by the close of the 2013-2014 fiscal year. In addition to the general fund estimated budget the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works.

As more fully described in Note S, the Commonwealth of Puerto Rico is facing a financial crisis due to limited liquidity, general fund deficit, a sizeable amount of debt, an underfunded government pension system and an economy recession since 2006. As a result of these matters, credit ratings agencies have been consistently downgrading the Commonwealth's and certain public corporation's general obligation bonds ratings. In order to address these matters the Commonwealth began to make legislation to reform its governmental pension system, provide liquidity to the Governmental Development Bank of Puerto Rico ("GDB"), its fiscal agent, and strengthen sinking funds to assess financial markets. The Commonwealth estimates that these corrective actions, among others to be implemented, will have a positive impact on the Commonwealth itself, GDB, the municipalities and its citizens. Among other actions on January 24, 2014 the Commonwealth approved Acts No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

On February 4, 2014, February 7, 2014 and February 11, 2014 Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"), respectively, lowered its ratings on the Commonwealth of Puerto Rico's general obligation (GO) debt and other of its instrumentalities such as GDB, ERS and COFINA. The downgrades follow S&P's, Moody's and Fitch's evaluation of liquidity and access to markets. It is the opinion of the Municipality's management that the corrective actions taken and to be taken in current and fiscal periods thereafter will lower the impact of this decision and cause a positive turnaround on the Commonwealth's and the Municipality's finances.

**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 POSITION  
JUNE 30, 2013**

	<b>Governmental Activities</b>
<b><u>ASSETS</u></b>	
Cash and cash equivalents	\$ 2,823,986
Receivables, net:	
Municipal license taxes	12,600
Due from:	
Commonwealth Government	1,141,609
Federal Government	748,530
Restricted assets:	
Cash and cash equivalents	1,390,498
Cash with fiscal agent	3,414,564
Capital assets:	
Land and construction in progress	10,611,504
Other capital assets, net	25,161,222
Total capital assets, net	35,772,726
<b>Total assets</b>	<b>\$ 45,304,513</b>
 <b><u>LIABILITIES</u></b>	
Accounts payable and accrued liabilities	\$ 1,230,766
Interest payable	137,423
Due to:	
Commonwealth Government	178,605
Unearned revenues:	
Municipal license taxes	370,708
Intergovernmental-federal grants	20,348
Long-term liabilities:	
Due within one year	1,238,851
Due in more than one year	8,447,706
<b>Total liabilities</b>	<b>11,624,407</b>
 <b><u>NET POSITION</u></b>	
Net investment in capital assets	29,375,836
Restricted for:	
Debt service	2,385,139
Capital projects	1,678,907
Other specified purposes	165,179
Unrestricted	75,045
<b>Total net position</b>	<b>\$ 33,680,106</b>

The accompanying notes are an integral part of this statement.



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013

	Major Funds							Total Governmental Funds
	General	Commonwealth Legislature Resolutions	Debt Service	Development Block Grant Program	Rural Development Corporation (CDR) - Marine Facilities	GDB \$690,000 Line of Credit - Ojo de Agua Hotel	PR Department of Transportation (DTOP)	
<b>Assets</b>								
Cash and cash equivalents	\$ 2,823,986	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,823,986
Receivables, net:								
License taxes	12,600	-	-	-	-	-	-	12,600
Due from:								
Commonwealth Government	870,188	-	64,852	-	-	177,128	29,441	1,141,609
Federal Government	-	-	-	406,579	-	145,746	196,205	748,530
Other funds	522,612	-	-	-	-	-	-	522,612
Restricted assets:								
Cash and cash equivalents	-	511,227	-	3,602	320,714	12,600	542,355	1,390,498
Cash with fiscal agent	-	-	2,476,985	-	-	-	937,579	3,414,564
<b>Total assets</b>	<b>\$ 4,229,386</b>	<b>\$ 511,227</b>	<b>\$ 2,541,837</b>	<b>\$ 410,181</b>	<b>\$ 320,714</b>	<b>\$ 335,474</b>	<b>\$ 1,705,580</b>	<b>\$ 10,054,399</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances (deficit)</b>								
<b>Liabilities:</b>								
Accounts payable and accrued liabilities	\$ 219,461	\$ 4,901	\$ -	\$ 285,999	\$ -	\$ 322,874	\$ 369,515	\$ 1,230,766
Matured bonds and interest payable	-	-	638,083	-	-	-	-	638,083
Due to:								
Commonwealth Government	178,605	-	-	124,182	-	-	349,964	178,605
Other funds	-	-	283	-	-	48,183	-	522,612
Unearned revenues:								
Municipal license taxes	371,089	-	-	-	-	-	-	371,089
Intergovernmental - federal grants	-	-	-	-	-	-	20,348	20,348
<b>Total liabilities</b>	<b>769,155</b>	<b>4,901</b>	<b>638,366</b>	<b>410,181</b>	<b>-</b>	<b>322,874</b>	<b>739,827</b>	<b>2,961,503</b>
<b>Deferred Inflows of Resources:</b>								
Unavailable revenues - Commonwealth Government Funds	840,564	-	18,989	-	-	177,128	29,441	1,066,122
Unavailable revenues - federal grants	-	-	-	294,140	-	-	193,763	487,903
<b>Total deferred inflow of resources</b>	<b>840,564</b>	<b>-</b>	<b>18,989</b>	<b>294,140</b>	<b>-</b>	<b>177,128</b>	<b>223,204</b>	<b>1,554,025</b>
<b>Fund Balances (deficit):</b>								
Restricted	107,740	506,326	1,884,482	-	320,714	12,600	967,496	3,799,358
Committed	583,340	-	-	-	-	-	-	583,340
Assigned	483,379	-	-	(294,140)	-	(177,128)	(224,947)	483,379
Unassigned	1,445,208	-	1,884,482	(294,140)	-	(164,528)	742,549	672,794
<b>Total fund balances (deficit)</b>	<b>2,619,667</b>	<b>506,326</b>	<b>1,884,482</b>	<b>(294,140)</b>	<b>320,714</b>	<b>(164,528)</b>	<b>742,549</b>	<b>5,538,871</b>
<b>Total liabilities, deferred inflows of resources and fund balances (deficit)</b>	<b>\$ 4,229,386</b>	<b>\$ 511,227</b>	<b>\$ 2,541,837</b>	<b>\$ 410,181</b>	<b>\$ 320,714</b>	<b>\$ 335,474</b>	<b>\$ 1,705,580</b>	<b>\$ 10,054,399</b>

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2013**

**Total fund balances - governmental funds**

**\$ 5,538,871**

Amounts reported for governmental activities in the Statement of Net Position 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

35,772,726

Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:

Due from Commonwealth Government:

Christmas bonus reimbursement	75,027	
Property taxes- General Fund	198,865	
P.R. Department of Transportation (DTOP)	177,128	
Sales and use tax- Debt Service Fund	18,989	
P.R. Department of Labor - other state grant	10,401	
P.R. Electric Power Authority (PREPA)	566,675	
P.R. Department of Labor - Law No. 52	19,040	
Other	381	1,066,506

Due from Federal Government:

Federal grant - CDBG	294,140	
Federal grant - Child Care Program	82,276	
Federal grant - Child Care Food Program	4,949	
Federal grant - FEMA Irene Storm	38,900	
Federal grant - Hazzard Mitigation	15,000	
Federal grant - P.R. Office for Ombudsman Administration (OAP)	52,638	487,903

Interest liabilities are not due and payable in the current period and, therefore, are not reported in the funds

(13,343)

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

General obligation bonds and notes	(6,711,000)	
Note payable to CRIM-Law No. 42	(389,288)	
Note payable to CRIM-financing of delinquent accounts	(39,112)	
Payable to CRIM - property tax advances	(9,649)	
Compensated absences	(1,306,779)	
Christmas Bonus	(150,054)	
Debt payable to P.R. Electric Power Authority	(566,675)	(9,172,557)

**Net position of governmental activities:**

**\$ 33,680,106**

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, 2013

		Major Funds										
	General	Commonwealth Legislature Resolutions	Debt Service	USHUD - Community Development Block Grant Program	Rural Development Corporation (CDR) - Marine Facilities	GDB \$690,000 Line of Credit - Ojo de Agua Hotel	PR Department of Transportation (DTOP)	Other Governmental Funds	Total Governmental Funds			
<b>Revenues:</b>												
Taxes:												
Property taxes	\$ 1,430,758	-	\$ 702,124	-	-	\$ -	-	\$ -	\$ 2,132,882			
Municipal license taxes	500,106	-	-	-	-	-	-	-	500,106			
Sales and use taxes	1,017,884	-	362,460	-	-	-	-	-	1,380,344			
Intergovernmental:												
Commonwealth Government	4,583,511	170,000	-	-	-	-	158,346	101,920	5,013,777			
Federal Government	-	-	-	753,437	-	-	-	558,678	1,312,115			
Fees, fines and charges for services	2,615,884	-	-	-	-	-	-	17,212	2,633,096			
Interest	19,215	-	2,018	-	-	-	-	41,679	62,912			
Other	203,217	-	-	-	-	-	-	-	203,217			
<b>Total revenues</b>	<b>10,370,575</b>	<b>170,000</b>	<b>1,066,602</b>	<b>753,437</b>	<b>-</b>	<b>-</b>	<b>158,346</b>	<b>719,489</b>	<b>13,238,449</b>			
<b>Expenditures:</b>												
Current:												
General government	4,393,330	-	-	143,388	-	-	-	248,888	4,785,606			
Public works and sanitation	2,872,361	137,492	-	-	-	-	-	332,860	3,342,713			
Public Safety	832,993	-	-	-	-	-	-	75,450	908,443			
Culture and recreation	483,706	-	-	8,600	-	-	-	-	492,306			
Health	320,367	-	-	-	-	-	-	-	320,367			
Welfare and community development	298,583	91,508	-	204,864	-	-	-	411,455	1,006,410			
Education	64,990	96,364	-	471,086	-	27,024	145,746	2,888	1,702,995			
Capital outlays	-	-	573,000	-	-	-	-	-	573,000			
Debt Service:	-	-	292,175	-	-	-	-	-	292,175			
Principal	-	-	-	-	-	-	-	-	-			
Interest	-	-	865,175	827,938	-	27,024	145,746	1,969,326	13,426,903			
<b>Total expenditures</b>	<b>9,266,330</b>	<b>325,364</b>	<b>1,666,350</b>	<b>827,938</b>	<b>-</b>	<b>27,024</b>	<b>145,746</b>	<b>1,969,326</b>	<b>13,426,903</b>			
<b>Excess (deficiency) of revenues over expenditures</b>	<b>1,104,245</b>	<b>(155,364)</b>	<b>(201,427)</b>	<b>(74,501)</b>	<b>-</b>	<b>(27,024)</b>	<b>12,600</b>	<b>(1,249,837)</b>	<b>(188,454)</b>			
<b>Other financing sources (uses):</b>												
Payment of PREPA debt	(497,930)	-	-	-	-	-	-	-	(497,930)			
Transfers in	62,629	-	40,191	-	-	-	-	1,412	104,232			
Transfers (out)	(41,603)	-	(1,232)	-	-	-	-	(61,397)	(104,232)			
<b>Total other financing resources (uses)</b>	<b>(476,904)</b>	<b>-</b>	<b>38,959</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(59,985)</b>	<b>(497,930)</b>			
<b>Net change in fund balances (deficit)</b>	<b>627,341</b>	<b>(155,364)</b>	<b>240,386</b>	<b>(74,501)</b>	<b>-</b>	<b>(27,024)</b>	<b>12,600</b>	<b>(1,309,822)</b>	<b>(686,384)</b>			
<b>Fund balances (deficit) at beginning of year, as reported</b>	<b>1,992,326</b>	<b>661,690</b>	<b>1,644,096</b>	<b>(219,639)</b>	<b>320,714</b>	<b>(49,175)</b>	<b>(177,128)</b>	<b>2,052,371</b>	<b>6,225,255</b>			
<b>Fund balances (deficit) at end of year</b>	<b>\$ 2,619,667</b>	<b>\$ 506,326</b>	<b>\$ 1,884,482</b>	<b>\$ (294,140)</b>	<b>\$ 320,714</b>	<b>\$ (76,199)</b>	<b>\$ (164,528)</b>	<b>\$ 742,549</b>	<b>\$ 5,538,871</b>			

*[Handwritten signature]*

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2013**

**Net change in fund balances (deficit) - total governmental funds:** **\$ (686,384)**

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	1,700,850	
Less: current year depreciation	<u>(1,198,300)</u>	502,550

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

Christmas bonus reimbursement	75,027	
Property taxes- General Fund	198,865	
Sales and use tax- Debt Service Fund	18,989	
P.R. Department of Labor - other state grant	10,401	
P.R. Electric Power Authority (PREPA)	355,242	
P.R. Department of Labor - Law No.52	19,040	
Federal grant - P.R. Office for Ombudsman Administration (OAP)	52,638	
Federal grant - FEMA Irene Storm	38,900	
Federal grant - Child Care Program	82,276	
Federal grant - Child Care Food Program	4,949	
Federal grant - CDBG	204,069	
Other	<u>381</u>	1,060,777

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

Christmas bonus reimbursement-prior year	73,496	
Municipal License Tax - General Fund	1,250	
Property taxes-General Fund	293,043	
Sales and use tax-General Fund	37,706	
Sales and use tax-Debt Service Fund	17,691	
P.R. Department of Labor - Law No. 52	3,140	
P.R. Electric Power Authority (PREPA)	320,308	
Federal grant - CDBG	<u>129,569</u>	(876,203)

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

Matured bonds principal payments (net change)		(73,000)
---	--	----------

Repayment of long term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:

General obligation bonds and notes	646,000	
Other long term liabilities	<u>777,798</u>	1,423,798

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:

Transfer of capital asset to PRASA	(2,689,497)	
Compensated absences	(79,884)	
Christmas bonus	(150,054)	
Debt payment to P.R. Electric Power Authority	(532,864)	
Accrued interest (net change)	1,408	
Other	<u>(32,931)</u>	<u>(3,483,822)</u>

**Change in net position of governmental activities:** **\$ (2,132,284)**

The accompanying notes are an integral part of these statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF RINCON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**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) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if it meets any of the following three conditions:

- a. The primary government appoints a voting majority of the entity's governing body, and either:
  - A financial benefit/ burden exist between the primary government and the entity or
  - The primary government can impose its will on the entity.
- b. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
- c. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

In addition, "*special criteria*" apply when evaluating a legally separate, tax-exempt organization as potential component unit. Specifically, such entities must be treated as component units if they meet all of the following criteria:

- 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF RINCON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

Legally separate, tax-exempt organizations that do not meet the above *special criteria* should still be included as a component unit if the financial statements of the primary government would be misleading without them.

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 and (b) *discrete* presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is *blended* with those of the primary government ("*blended component units*"). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as *blended* if they meet any of the following criteria:

- a. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
  - A financial benefit/ burden exist between the primary government and the entity or
  - Management of the primary government has operational responsibility for the primary government.
- b. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
- c. The component unit's debt is expected to be paid by the primary government.

Otherwise, the component unit should be presented as discrete. Those component units does not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government ("*discretely component units*"). Legally separate, tax-exempt organizations that meet the *special criteria* should be included as *discretely component units*.

Based on the above criteria there are no potential component units which should be included as part of the financial statements.

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

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

**Management's Discussion and Analysis**

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.

**Basic financial statements**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

**Government-wide statements**

The government-wide statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. 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 Position presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. 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 direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Direct expenses are those that are clearly identifiable with a specific function. As a policy, indirect expenses are not allocated in the Statement of Activities. 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.

The Municipality reports unearned revenues in the government-wide statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) 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 unearned revenues is removed from the Statement of Net Position and the revenue is recognized.

**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, deferred outflows, liabilities, deferred inflows, 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 and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official criteria if the fund is particularly important to financial statement users (for Commonwealth Legislature Resolutions, Rural Development Corporation (CDR) - Marine Facilities and GDB \$690,000 Line of Credit - "Ojo de Agua" Hotel Funds).

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

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 that are restricted, committed, or assigned for specific purposes which include, among others, acquisition, development and improvements of capital assets, public works, welfare and other community development projects.

**Debt Service Fund:** This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest. This fund accounts for the resources of three individual funds including the "CAE Fund" (sinking fund which accounts for the 2% of property taxes collected by the CRIM), "Fondo 11 – CRIM Fund" (resources transferred from general fund to CRIM for debt service) and the "Municipal Redemption Fund" (.2% of the .5% from sales and use taxes will be deposited in GDB to finance loans to Municipalities).

**USHUD - Community Development Block Grant Program (CDBG) Fund:** CDBG fund 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. CDBG funds are received through the Office of Commissioner of Municipal Affairs ("OCAM"), a Commonwealth's governmental agency.

**Rural Development Corporation - Marine Facilities Fund:** This fund is used to account for and report resources for the acquisition of marine facilities to be used by citizens of the Municipality. Those resources are financed through the Rural Development Corporation, a Commonwealth's governmental agency of the Puerto Rico Department of Agriculture.

**GDB \$690,000 Line of Credit - Ojo de Agua Hotel Fund:** This fund is used to account for and report the expenditures for the construction of a municipal hotel "Ojo de Agua". The line of credit is financed by the Governmental Development Bank of Puerto Rico ("GDB").

**P.R. Department of Transportation (DTOP) Fund:** This fund is used to account for and report revenue sources from the Puerto Rico Department of Transportation for capital improvements, public works and other capital outlays.

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.

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

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 unearned revenues in the governmental funds statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) 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 unearned revenues is removed from the balance sheet and the revenue is recognized.

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

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

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

**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.

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.

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

**8. Capital assets**

Capital assets reported in the governmental activities in the Statements of Net Position 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:

<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. Deferred outflows/inflows of resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report *unavailable revenue* from one source: unavailable intergovernmental revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**10. 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 Position, consist of general and special obligation bonds, liabilities for compensated absences, and long-term liabilities to other governmental entities. Related bond issuance costs, whenever rise, are reported as current outflows of resources in the Statement of Activities, 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.

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

***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.

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. Claims and judgments***

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when they mature (generally, when payment is due).

***13. Net position***

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

**Net investment in capital assets:**

Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

**Restricted net position:**

The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

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

**Unrestricted net position:** Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is 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.

**14. Net position flow assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted (restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**15. Fund balances**

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 pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature 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.

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

**Assigned:** Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. 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.

**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.

**16. Fund balance flow assumptions**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**17. 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.

**18. Risk financing**

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

Insurance policies costs are allocated by PRDT among all the municipalities of Puerto Rico. Payment of the Municipality's insurance premiums is 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.

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

**19. 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.

**20. Reclassifications**

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

**21. Future adoption of accounting pronouncements**

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

- a. **GASB Statement No. 66** “*Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*”. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year ended June 30, 2014).
- b. **GASB Statement No. 67** “*Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*”. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013 (fiscal year ended June 30, 2014).
- c. **GASB Statement No. 68** “*Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*”. The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).
- d. **GASB Statement No. 69** “*Government Combinations and Disposals of Government Operations*”. The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis (fiscal year ended June 30, 2015).
- e. **GASB Statement No. 70** “*Accounting and Financial Reporting for Nonexchange Financial Guarantees*”. The provisions of this Statement 70 are effective for financial statements for reporting periods beginning after June 15, 2013 (fiscal year ended June 30, 2015).
- f. **GASB Statement No. 71** “*Pension Transition for Contributions Made Subsequent to the Measurement Date*”. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 (fiscal year ended June 30, 2015).

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

**COMMONWEALTH OF PUERTO RICO  
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**NOTE B- DEPOSITS**

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

At year-end the Municipality’s bank balance of deposits in commercial banks amounting to \$3,439,956 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 \$3,269,408.

**NOTE C- DUE FROM GOVERNMENTAL ENTITIES**

Amounts due from governmental entities as of June 30, 2013 follows:

	<b>Commonwealth Government Funds</b>	<b>Federal Government Funds</b>
<b><u>Major fund – General fund:</u></b>		
P.R. Electric Power Authority (PREPA)	\$ 566,675	\$ -
Municipal Revenue Collection Center (CRIM)- property taxes and intergovernmental subsidy (general fund)	198,864	-
P.R. Department of Treasury – Christmas bonus reimbursement	75,025	-
P.R. Department of Treasury – sales and use taxes-1% and Municipal Development fund	29,624	-
<b><u>Major fund – Debt service fund:</u></b>		
Municipal Revenue Collection Center (CRIM) – property taxes	11,648	-
P.R. Department of Treasury – sales and use taxes-Municipal Redemption Fund	53,204	-
<b><u>Major fund – CDBG fund:</u></b>		
Office of Commissioner of Municipal Affairs – CDBG	-	406,579
<b><u>Major fund – P.R. Department of Transportation fund:</u></b>		
P.R. Department of Transportation	177,128	145,746
<b><u>Other governmental funds:</u></b>		
P.R. Department of Labor – Law No. 52	19,040	-
P.R. Governor’s Office (GAR) – Hazard Mitigation	-	15,000
P.R. Governor’s Office (GAR) – FEMA (Irene Storm)	-	38,900
P.R. Department of Family – Child Care Program	-	82,276
P.R. Department of Education – Child Care Food Program	-	7,391
P.R. Office of Ombudsman Administration (OAP)	-	52,638
P.R. Department of Labor – other state funds	10,401	-
	<b>\$ 1,141,609</b>	<b>\$ 748,530</b>

Certain amounts are recorded as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards. See related note I.

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**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>	
	USHUD - Community Development Block Grant Program (CDBG)	\$ 124,182
	GDB \$690,000 Line of Credit - Ojo de Agua Hotel	48,183
	Debt service fund	283
	<b>Other Governmental Funds:</b>	
	Child Care and Development Block Grant	93,940
	Child Care Food Program	7,235
	P.R. Department of Labor – Law No. 52	21,666
	P.R. Office of Ombudsman Administration (OAP)	57,764
	P.R. Governor’s Office (GAR) –Hazard Mitigation	15,000
	P.R. Governor’s Office (GAR) – FEMA Irene Storm	143,958
	P.R. Department of Labor and Human Resources – other state funds	10,401
Total:		<b>\$ 522,612</b>

**2. Transfers in (out)**

Transfers among individual funds were made for operational purposes. Transfers include:

- a. Principal and interest payments of long-term debt transferred from the general fund to the debt service fund and,
- b. 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.

**NOTE E- FUND BALANCE**

**1. Fund balance classifications**

The governmental fund balance classifications and amounts at June 30, 2013 are shown in the following table:

	General	Commonwealth Legislative Resolutions	Debt Service	USHUD- Community Development Block Grant Program	Rural Development Corporation (CDR) - Marine Facilities	GDB \$690,000 Line of Credit - Ojo de Agua Hotel	PR Department of Transportation (DTOP)	Other Governmental Funds	Total
<b>Restricted:</b>									
General public works and sanitation	\$ 100,941	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,600	\$ 309,500	\$ 423,041
Sports, culture and recreation	6,799	-	-	-	-	-	-	-	6,799
Housing welfare and community development	-	-	-	-	-	-	-	43,552	43,552
Debt service	-	-	1,884,482	-	-	-	-	-	1,884,482
Capital outlays	-	506,326	-	-	320,714	-	-	614,444	1,441,484
	<u>107,740</u>	<u>506,326</u>	<u>1,884,482</u>	<u>-</u>	<u>320,714</u>	<u>-</u>	<u>12,600</u>	<u>967,496</u>	<u>3,799,358</u>
<b>Committed:</b>									
General public works and sanitation	386,256	-	-	-	-	-	-	-	386,256
Capital outlays	58,339	-	-	-	-	-	-	-	58,339
General government and other purposes	138,745	-	-	-	-	-	-	-	138,745
	<u>583,340</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>583,340</u>
<b>Assigned:</b>									
General public works and sanitation	381,310	-	-	-	-	-	-	-	381,310
Sports, culture and recreation	3,000	-	-	-	-	-	-	-	3,000
Capital outlays	50,000	-	-	-	-	-	-	-	50,000
General government and other purposes	49,069	-	-	-	-	-	-	-	49,069
	<u>483,379</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>483,379</u>
Unassigned	1,445,208	-	-	(294,140)	-	(76,199)	(177,128)	(224,947)	672,794
	<u>\$ 2,619,667</u>	<u>\$ 506,326</u>	<u>\$ 1,884,482</u>	<u>\$ (294,140)</u>	<u>\$ 320,714</u>	<u>\$ (76,199)</u>	<u>\$ (164,528)</u>	<u>\$ 742,549</u>	<u>\$ 5,538,871</u>

**COMMONWEALTH OF PUERTO RICO  
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**NOTE E- FUND BALANCE - Continued**

**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>	
USHUD - Community Development Block Grant Program (CDBG)	\$ 294,140
P.R. Department of Transportation	\$ 177,128
GDB \$690,000 Line of Credit - Ojo de Agua Hotel	\$ 76,199
<b>Other Governmental Funds:</b>	
Child Care and Development Block Grant Program	\$ 82,276
P.R. Office of Ombudsman Administration (OAP)	52,638
P.R. Governor's Office (GAR) – FEMA Irene Storm	38,900
P.R. Department of Labor – Law No. 52	19,040
P.R. Governor's Office (GAR) –Hazard Mitigation	15,000
Others	17,093
	<b>\$ 224,947</b>

The deficits result from the recognition of deferred inflows of resources for unavailable revenues, except for GDB \$690,000 Line of Credit - Ojo de Agua Hotel Fund which is due because of the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement (expenditure-driven) grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

**NOTE F- CAPITAL ASSETS**

Capital assets and depreciation activity as of and for the year ended June 30, 2013 is as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 7,775,118	\$ 185,175	\$ -	\$ 7,960,293
Construction in progress	5,776,609	685,895	3,811,293	2,651,211
<b>Total capital assets not being depreciated:</b>	<b>13,551,727</b>	<b>871,070</b>	<b>3,811,293</b>	<b>10,611,504</b>
Capital assets, being depreciated:				
Land improvements	924,782	-	-	924,782
Buildings and building improvements	20,925,500	1,123,941	-	22,049,441
Infrastructure	10,392,730	433,704	-	10,826,434
Vehicles, machinery and equipment	7,511,515	527,527	-	8,039,042
<b>Total capital assets being depreciated</b>	<b>39,754,527</b>	<b>2,085,172</b>	<b>-</b>	<b>41,839,699</b>
<b>Less accumulated depreciation for:</b>				
Land improvements	163,443	47,476	-	210,919
Buildings and building improvements	4,957,670	454,553	-	5,412,223
Infrastructure	4,538,347	384,075	-	4,922,422
Vehicles, machinery and equipment	5,820,717	312,196	-	6,132,913
<b>Total accumulated depreciation</b>	<b>15,480,177</b>	<b>1,198,300</b>	<b>-</b>	<b>16,678,477</b>
<b>Total capital assets being depreciated, net</b>	<b>24,274,350</b>	<b>886,872</b>	<b>-</b>	<b>25,161,222</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 37,826,077</b>	<b>\$ 1,757,942</b>	<b>\$ 3,811,293</b>	<b>\$ 35,772,726</b>

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

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

<u>Governmental activities:</u>	
General government	\$ 164,091
Public works and sanitation	567,066
Public safety	58,969
Culture and recreation	377,536
Welfare and community development	30,188
Health	450
	<hr/>
Total depreciation expense, governmental activities	<u><u>\$ 1,198,300</u></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.

The Municipality entered into agreements with agencies and instrumentalities of the Commonwealth to perform the construction of certain infrastructure projects to be ultimately used by those agencies and instrumentalities in their operations. These capital projects (including land acquired) are funded by the Municipality through grants and/or loans and included as part of the Municipality's capital assets until construction is completed and conditions for transfers to the ultimate beneficiaries are met. At that time, they are recorded as an expense in the Statement of Activities. During the fiscal year 2012-2013 the Municipality transferred to the Puerto Rico Aqueduct and Sewer Authority ("PRASA") the "Barrero Sanitary Sewer System", an infrastructure project amounting to \$2,689,497 after conditions for transfers were met, including an inspection from PREPA's officials. Total project cost transferred was recorded as public works expense in the Statement of Activities.

**NOTE G- LONG-TERM DEBT**

**1. Summary of long-term debt activity**

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2013:

	<u>Balance at July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>	<u>Due within one year</u>
General, Special Obligation Bonds and Notes	\$ 7,871,000	\$ -	\$ 646,000	\$ 7,225,000	\$ 576,000
Note payable to CRIM-Law No. 42	399,831	-	10,543	389,288	11,205
Note payable to CRIM-financing of delinquent accounts	41,169	-	2,057	39,112	2,059
Compensated absences	1,347,172	79,884	120,277	1,306,779	110,479
Christmas Bonus	146,991	150,054	146,991	150,054	150,054
Payable to CRIM-property tax advances	9,649	-	-	9,649	-
Payable to PREPA	531,741	532,864	497,930	566,675	389,054
	<u>\$ 10,347,553</u>	<u>\$ 762,802</u>	<u>\$ 1,423,798</u>	<u>\$ 9,686,557</u>	<u>\$ 1,238,851</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF RINCON**  
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**NOTE G- LONG-TERM DEBT- Continued**

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

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2013 amount to \$7,225,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by law. Debt service fund has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of certain long-term debt issued for operational purposes (special obligation bond of \$635,000) are made through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). Principal and interest payments of special obligation notes of \$705,000, \$1,428,000 and \$395,000 are made through the "Municipal Redemption Fund". A detail of the general and special obligation bonds and notes as of June 30, 2013 follows:

	<u>Outstanding Amount</u>
1994 public improvement bonds of \$721,000 due in annual installments of \$17,000 to \$52,000 through January 1, 2017; bearing interest at 5%	\$ 192,000
2003 special obligation bonds of \$635,000 due in annual installments of \$5,000 to \$50,000 through January 1, 2027; bearing interest at rates ranging from 1.53% to 6.62% (1.53% at June 30, 2013)	495,000
2005 general obligation bonds of \$192,000 due in annual installments of \$15,000 to \$24,000 through July 1, 2014; bearing interest at rates ranging from 1.53% to 6.62% (1.53% at June 30, 2013)	47,000
2004 general obligation bonds of \$530,000 due in annual installments of \$12,000 to \$35,000 through January 1, 2029; bearing interest at 4.25%	402,000
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% (7.5% at June 30, 2013)	100,000
2008 general obligation bonds of \$500,000 due in annual installments of \$5,000 to \$40,000 through July 1, 2032; bearing interest at rates ranging from 1.53% to 7.25% (1.53% at June 30, 2013)	455,000
2008 general obligation bonds of \$455,000 due in annual installments of \$15,000 to \$50,000 through July 1, 2023; bearing interest at rates ranging from 1.53% to 7.50% (1.53% at June 30, 2013)	380,000
2008 special obligation notes of \$705,000 due in annual installments of \$50,000 to \$95,000 through July 1, 2018; bearing interest at rates ranging from 1.53% to 7.50% (1.53% at June 30, 2013)	480,000
2008 special obligation notes of \$1,428,000 due in annual installments of \$48,000 to \$159,000 through July 1, 2024; bearing interest at rates ranging from 1.53% to 7.50% (1.53% at June 30, 2013)	1,209,000

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

	<b>Outstanding Amount</b>
2010 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, 2013)	310,000
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, 2013)	1,020,000
2002 general obligation bonds of \$1,660,000 due in annual installments of \$25,000 to \$130,000 through July 1, 2026; bearing interest at rates ranging from 2.7% to 5.6% (4.61% at June 30, 2013)	1,230,000
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, 2013)	555,000
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% (6% at June 30, 2013)	350,000
	<b>\$ 7,225,000</b>

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2013 follows:

<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>
2014	\$ 576,000	\$ 375,529
2015	500,000	418,875
2016	514,000	384,268
2017	572,000	345,516
2018	553,000	305,474
2019-2023	2,125,000	1,079,168
2024-2028	1,460,000	509,430
2029-2033	625,000	229,281
2034-2038	300,000	40,125
Totals	<b>\$ 7,225,000</b>	<b>\$ 3,687,666</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:	<b>\$ 389,288</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
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JUNE 30, 2013**

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

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 11,205	\$ 23,917
2015	11,909	23,213
2016	12,657	22,464
2017	13,453	21,669
2018	14,298	20,824
2019-2023	86,148	89,460
2024-2028	116,834	58,774
2029-2032	122,784	17,701
Totals	<u>\$ 389,288</u>	<u>\$ 278,022</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 provisions of Law No. 146 of October 11, 2001. The agreement is in the form of a non-revolving line of credit bearing interest of 6.5% for the first five years and variable for the next twenty-five years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first five years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Also, during the first five-years any collection from those delinquent accounts was credited to the loan principal. After the five-year period the loan outstanding balance was restructured for a twenty-five-year period. Debt service requirements in future years are as follows:

**39,112**

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 2,059	\$ 2,433
2015	2,059	2,305
2016	2,059	2,177
2017	2,059	2,048
2018	2,058	1,921
2019-2023	10,292	7,683
2024-2028	10,292	4,482
2029-2032	8,234	1,280
Totals	<u>\$ 39,112</u>	<u>\$ 24,329</u>

**COMMONWEALTH OF PUERTO RICO  
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**NOTE G- 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	<b>1,306,779</b>
<b>Christmas Bonus</b> – represents the accrued portion corresponding to fiscal year 2013 of the Christmas bonus to be paid in December 2013.	<b>150,054</b>
<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 J)	<b>9,649</b>
<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 2011-2012 the Municipality’s annual energy charges amounted to \$1,375,829 but the CELI obligation amounted to \$842,965. The excess amount of \$532,864 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, 2013 the outstanding amount of \$566,675 includes a balance of \$211,433 from fiscal year 2012 and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:	<b>566,675</b>

<b>June 30</b>	<b>Principal</b>
2014	\$ 389,054
2015	177,621
Totals	<b>\$ 566,675</b>

**NOTE H – Line of Credit**

The Municipality has an approved line of credit of \$690,000 with the Governmental Development Bank of Puerto Rico (“GDB”) 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. There were no amounts outstanding under this line of credit as of June 30, 2013.

**COMMONWEALTH OF PUERTO RICO  
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**NOTE I- DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS**

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund's financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

	<u>Commonwealth Government Funds</u>	<u>Federal Grants</u>
<b><u>Major fund – General fund:</u></b>		
P.R. Electric Power Authority (PREPA)	\$ 566,675	\$ -
Municipal Revenue Collection Center (CRIM)- property taxes and intergovernmental subsidy(general fund)	198,864	-
P.R. Department of Treasury – Christmas bonus reimbursement	75,025	-
<b><u>Major fund – Debt service fund:</u></b>		
P.R. Department of Treasury – sales and use taxes-Municipal Redemption Fund	18,989	-
<b><u>Major fund – CDBG fund:</u></b>		
Office of Commissioner of Municipal Affairs – CDBG	-	294,140
<b><u>Major fund – P.R. Department of Transportation fund:</u></b>		
P.R. Department of Transportation	177,128	-
<b><u>Other governmental funds:</u></b>		
P.R. Department of Labor – Law No. 52	19,040	-
P.R. Governor's Office (GAR) – Hazard Mitigation	-	15,000
P.R. Governor's Office (GAR) – FEMA (Irene Storm)	-	38,900
P.R. Department of Family – Child Care Program	-	82,276
P.R. Department of Education – Child Care Food Program	-	4,949
P.R. Office of Ombudsman Administration (OAP)	-	52,638
P.R. Department of Labor – other state funds	10,401	-
	<u>\$ 1,066,122</u>	<u>\$ 487,903</u>

**NOTE J – PROPERTY TAXES**

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is 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, 2013 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

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

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

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 final settlement of fiscal year 2010-2011 is still 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 \$198,864 from the final settlement of fiscal 2012-2013 was recorded as deferred inflows of resources since it is not available as required by current standards.

**NOTE K – MUNICIPAL LICENSE TAXES**

Municipal License taxes are assessed annually by the Municipality to all organizations or entities doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15.

During the fiscal year ended June 30, 2013, 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 \$371,089 is recorded as unearned revenues.

**NOTE L – SALES AND USE TAXES**

**1. As of June 30, 2013**

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. 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 L – SALES AND USE TAXES - Continued**

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 (“Act 80”) which amends Act No. 117 of July 4, 2006 to impose 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).

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 be distributed among all the municipalities in accordance with a formula created by the Act,
- b. .2% of the .5% will be deposited in a “Municipal Redemption Fund” to finance loans to Municipalities 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. Effective January 1, 2011 the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (“2011 PR Code”). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050 the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

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. The Municipality recorded as revenue \$1,017,884 in the general fund of which \$456,556 corresponds to the 1% imposition and \$561,328 corresponds to the Municipal Development Fund. The amount of \$362,460 recorded in the debt service fund corresponds to the Municipal Redemption Fund.

A total of \$29,624 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%); \$53,204 represents the amount of “Municipal Redemption Fund” collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30. The amount of \$18,989 (related to Municipal Redemption Fund) is recorded as deferred inflows of resources in the governmental fund statements since it is not available as required by current standards.

On June 30, 2013 the Commonwealth approved Act No. 40 which, among other things, reduces the municipal sales and use tax from 1.5% to 1% and increases the Commonwealth sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014. In addition, subsequent to June 30, 2013 the Commonwealth approved Acts No. 18 and 19 of January 24, 2014 for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. See related Note S.

**COMMONWEALTH OF PUERTO RICO  
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**NOTE M –INTERGOVERNMENTAL REVENUES AND FEES, FINES AND CHARGES FOR SERVICES–  
GENERAL FUND**

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

	<b>Amount</b>
Amount of municipal subsidies and equalization fund sent by CRIM	\$ 4,452,322
Reimbursement from Commonwealth Government of Christmas Bonus expenditures	131,189
	<b>\$ 4,583,511</b>

2. Fees, fines and charges for services revenues reported in the general fund are comprised of the following:

	<b>Amount</b>
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	\$ 1,822,600
P.R. Department of Education – transportation services to students	570,179
Construction excise tax	103,300
Rental income	80,182
Licenses and permits	9,586
Fines	7,401
Other	22,636
	<b>\$ 2,615,884</b>

**NOTE N – RETIREMENT PLAN**

**1. Plan description**

As of June 30, 2013 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 operates under *Act 447, approved on May 15, 1951*, as amended, effective on January 1, 1952 and *Act 1 of February 16, 1990* for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. 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.

*Act No. 305 of September 24, 1999* amended *Act. No. 447 of 1951* and *Act 1 of February 16, 1990* to establish 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.

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**NOTE N – RETIREMENT PLAN – Continued**

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will 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 (11.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

**2. Funding policy**

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.

As of June 30, 2012, the ERS has an unfunded actuarial accrued liability of approximately \$26.4 billion. In the opinion of management if measures are not implemented to deal with this situation, the ERS's net assets will be exhausted by fiscal year 2015. In order to address this issue, among other measures, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act is to provide cash flow and strengthen the System to adequately cover administrative expenses and payment of benefits.

The Municipality is required to contribute 11.275% of gross salary for fiscal year 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature. 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>
2013	\$ 83,054	\$ 189,590
2012	\$ 95,547	\$ 208,309
2011	\$ 94,712	\$ 192,341

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3, representing a comprehensive reform of the ERS. See related Note S.

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**NOTE O – POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note N, as of June 30, 2013 the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth laws. Also, the Municipality is required to finance costs related to the application of certain “Special Laws” issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicine bonus, Christmas bonus and death benefits. For fiscal year 2013, costs related to these post employment benefits amounted to \$72,710. These benefits are recorded as expenditures in the general fund.

**NOTE P – COMMITMENTS**

**1. Operating leases**

The Municipality leases office equipment under operating lease agreements, which generally have terms of one year or less, and are automatically renewed for the same terms. Rental expenses amounted to \$37,776. Management believes that the summary of the future minimum rental commitments under non-cancelable operating leases with terms exceeding one year is not significant.

**2. Construction**

As of June 30, 2013 the Municipality has commitments of \$882,882 for design, construction, improvements or renovation of certain municipal facilities.

**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, 2013 in the general fund represent unassigned amounts that are encumbered and are classified by management as assigned fund balance. Purpose classification follows:

Purpose	General Fund- assigned fund balance
General public works and sanitation	\$ 19,686
Sports, culture and recreation	3,000
General government and other purposes	28,200
	<b>\$ 50,886</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 Q – CONTINGENCIES**

**1. Federal and Commonwealth Grants**

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

**COMMONWEALTH OF PUERTO RICO  
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**NOTE Q – CONTINGENCIES**

**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.

**NOTE R – RESTATEMENT OF FUND BALANCE AND NET POSITION**

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

<u>Description</u>	<u>Restricted - Fund Balance P.R. Department of Transportation Fund (Major Fund)</u>	<u>Net Position Government - Wide Statements</u>
Fund balance / net position, at beginning of year, as previously reported	\$ -	\$ 35,491,676
Correction of error, recording of a deferred revenue on a grant awarded by the P.R. Department of Transportation for which all eligibility requirements were met and not recorded as revenue in previous years	320,714	320,714
<b>Fund balance / net position, at beginning of year, as restated</b>	<b><u>\$ 320,714</u></b>	<b><u>\$ 35,812,390</u></b>

**NOTE S – SUBSEQUENT EVENTS**

The Commonwealth of Puerto Rico is facing a financial crisis due to limited liquidity, general fund deficit, a sizeable amount of debt, an underfunded government pension system and an economy recession since 2006. As a result of these matters, credit rating agencies have been consistently downgrading the Commonwealth’s and certain public corporation’s general obligation bond ratings. In order to address these matters the Commonwealth began to enact legislation to reform its governmental pension system, provide liquidity to the Governmental Development Bank of Puerto Rico (“GDB”), its fiscal agent, and strengthen sinking funds to assess financial markets. The Commonwealth estimates that the following corrective actions, among others to be implemented, will have a positive impact on the Commonwealth itself, GDB, the municipalities and its citizens:

**1. Pension System Reform**

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Governor of Puerto Rico signed into law Act No. 3, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- a. Moves all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a new hybrid plan (“New Plan”).

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**NOTE S – SUBSEQUENT EVENTS - Continued**

- b. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen and, thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they have accrued under Act 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.
- c. Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.
- d. New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment)
- e. Eliminates the possibility of accruing a merit pension (payable once the participant has achieved 30 years of creditable service) after June 30, 2013.
- f. Increases employee contributions from 8.275% to a minimum of 10%.
- g. After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.
- h. Retirement age will be modified as follows:
  - 1) Act 447 regular employees: age 58 to 61,
  - 2) Act 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,
  - 3) Act 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).

Act 1 employees will remain the same (65 years for regular employees and 55 for high risk employees). New employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).

- i. Modifies Special Law benefits as follows:
  - 1) Reduction in Christmas bonus from \$600 to \$200 (current retirees),
  - 2) Elimination of summer bonus of \$100 (current retirees),
  - 3) No change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 (current retirees)
  - 4) Eliminates Special Law benefits to future retirees.

Employers will contribute \$2,000 per retiree and future retiree (originally under Act 447 and Act 1); the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

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**NOTE S – SUBSEQUENT EVENTS - Continued**

- j. Given these changes to Special Laws, the minimum monthly pension for current retirees was increased from \$400 to \$500.
- k. Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- l. Survivor benefits will be modified.

In addition to the previously scheduled measures, the ERS reform plan also assumes an estimated \$140 million incremental contribution from the general fund (1.4% of general fund expenses for fiscal year 2014) to be included in the Commonwealth's proposed budget for the fiscal year 2014 and thereafter. The Commonwealth projects that the combined impact of these measures will allow the retirement system to increase the liquidity and solvency and meet the revised future obligations.

**2. Sales and use taxes – Act No. 18 and 19 of 2014**

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014 the Commonwealth approved Acts No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

**a. Act No. 18 of January 24, 2014**

The purpose of this Act is to create a special fund called "Municipal Administration Fund" ("FAM") under custody of the Governmental Development Bank of Puerto Rico ("GDB") that permits the Municipalities to guarantee and pay long-term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation ("COFINA"), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

The 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds, during a transitory period from February 1, 2014 to June 30, 2014, the Commonwealth will deposit \$43,440,184 in the FAM to be distributed to the Municipalities as follows:

- .2% will be deposited in a Municipal Development Fund to be distributed to the municipalities,
- .2% will be, deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long-term debt and,
- .1% 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.

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**NOTE S – SUBSEQUENT EVENTS - Continued**

After July 1, 2014 the 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds the Commonwealth will deposit .5% in the FAM. Distribution to municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. The Municipality of Rincon signed the agreement to be covered.

For municipalities covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the "Municipal Development Fund" to be distributed to the municipalities,
- .2% will be deposited in a "Municipal Redemption Fund" and then be deposited in the municipalities general fund. The municipalities has the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions,
- .1% 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.

For municipalities not covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the "Municipal Development Fund". Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a "Municipal Redemption Fund" to guarantee and repay long-term debt through any financial institution ( each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% 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.

**b. Act No. 19 of January 24, 2014**

The purpose of this Act is to create the "Municipal Finance Corporation" ("COFIN") a public corporation and a component unit of the Governmental Development Bank of Puerto Rico ("GDB") which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

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**NOTE S – SUBSEQUENT EVENTS - Continued**

After July 1, 2014 the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIN. From these funds COFIN will deposit to the COFIN's sinking fund the greater of .3% of the 1% municipal sales and use tax or an Annual Rental Fee ("RFA"). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIN's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIN will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIN's sinking fund.

If at any moment the required deposits to the COFIN's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

As stated above the purpose of Acts 18 and 19 of 2014 is to provide a financial structure to guarantee and pay long-term debt to the municipalities while maintaining adequate cash flows for its operations, as well as provide liquidity to the GDB.

Notwithstanding the above, corrective actions, on February 4, 2014 Standard & Poor's Ratings Services ("S&P") lowered its rating on the Commonwealth of Puerto Rico's general obligation (GO) debt to 'BB+' from 'BBB-' and the Commonwealth's appropriation secured debt and Employee Retirement System (ERS) debt to 'BB'. In addition, S&P downgraded the GDB to 'BB', and the rating remains on CreditWatch with negative implications. S&P have not taken a rating action on sales tax-secured debt of COFINA, but have retained their negative outlook on their COFINA ratings reflecting S&P's view of the economic outlook and that COFINA sales tax is not subject to the prior diversion of revenue for general obligation debt service payments. The downgrades follow S&P's evaluation of liquidity for the Commonwealth, including what they believe is a reduced capacity to access liquidity from GDB. S&P also believe that the Commonwealth's access to liquidity and to the market either through GDB or other means will remain constrained in the medium term. As S&P, the rating is not lower due to the progress the current administration has made in reducing operating deficits and recent success with reform of the public employee and teacher pension systems. They view those reforms as significant which could contribute to a sustainable path to fiscal stability.

In addition, on February 7, 2014 Moody's Investors Service ("Moody's") has downgraded the general obligation (GO) rating of the Commonwealth of Puerto Rico, the Pension funding bonds and GDB senior notes to Ba2 from Baa3. Other ratings that are capped by or linked to the Commonwealth's GO rating were also downgraded two notches, with the exception of the Puerto Rico Aqueduct and Sewer Authority (PRASA) Revenue Bonds, which were downgraded to Ba2 from Ba1. At the same time, Moody's downgraded the Puerto Rico Sales Tax Financing Corporation's (COFINA's) senior-lien bonds to Baa1 from A2 and its junior-lien bonds to Baa2 from A3. The outlooks for ratings on the GO and the related bonds, as well as the COFINA bonds, are negative. Downgrade is based among other Commonwealth's problems in years of deficit financing, pension underfunding, budgetary imbalance and seven years of economic recession. As a result, Commonwealth's debt load and fixed costs are high, its liquidity is narrow, and its market access has become constrained. Moody's recognizes major actions taken to stabilize Commonwealth finances, including significant reform to main pension system, and tax increases to reduce budget deficit.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 5 – SUBSEQUENT EVENTS – Continued**

Furthermore, on February 11, 2014, Fitch Ratings (Fitch) has downgraded the ratings, among other instrumentalities, for the Commonwealth general obligation (GO) bonds and ERS pension funding bonds to BB from BBB-. The current action does not affect the ratings that Fitch assigns to bonds issued by COFINA, since those bonds are secured by the Commonwealth's sales and use tax and insulated from the Commonwealth's general credit strain. Fitch reported that recent downgrades have triggered new liquidity requirements and lowered expectations for the market available for the Commonwealth's debt going forward, though there have been no significant negative developments regarding the Commonwealth's finances or economy since November 2013. In addition, the report recognizes that the Commonwealth's management has responded quickly and decisively to challenges that have arisen in recent years and the current administration has made significant progress in addressing longstanding credit issues.

These downgrades may have a significant impact in the economic environment of Puerto Rico and the Commonwealth Government, its instrumentalities and the municipalities in critical areas such as access to markets and liquidity for the current fiscal year and thereafter. It is the opinion of the Commonwealth's and Municipality of Rincon's management that the corrective actions taken and to be taken in current and fiscal periods thereafter will lower the impact of this decision and cause a positive turnaround on the Commonwealth's and the Municipality's finances.

*REQUIRED SUPPLEMENTARY INFORMATION*

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF RINCON**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES:</u></b>				
Taxes:				
Property taxes	\$ 1,811,531	\$ 1,811,531	\$ 1,811,531	\$ -
Municipal license taxes	505,000	505,000	490,033	(14,967)
Sales and use taxes	775,000	1,125,000	1,104,842	(20,158)
Intergovernmental	3,771,962	3,771,962	3,764,653	(7,309)
Fees, fines and charges for services	1,979,081	2,034,081	2,035,516	1,435
Interest	60,000	60,000	62,125	2,125
Other	47,426	92,426	188,043	95,617
<b>Total revenues</b>	<b>8,950,000</b>	<b>9,400,000</b>	<b>9,456,743</b>	<b>56,743</b>
<b><u>EXPENDITURES:</u></b>				
General government	4,294,504	4,298,867	4,190,082	108,785
Public works and sanitation	2,547,224	2,518,067	2,491,370	26,697
Public safety	886,754	833,854	828,504	5,350
Culture and recreation	516,936	490,026	484,123	5,903
Health	339,565	320,565	320,367	198
Welfare and community development	312,842	300,946	299,048	1,898
<b>Total expenditures</b>	<b>8,897,825</b>	<b>8,762,325</b>	<b>8,613,494</b>	<b>148,831</b>
<b>Excess of revenues over expenditures</b>	<b>52,175</b>	<b>637,675</b>	<b>843,249</b>	<b>205,574</b>
<b><u>Other financing uses:</u></b>				
Transfers out	(52,175)	(637,675)	(636,691)	984
<b>Total other financing uses</b>	<b>(52,175)</b>	<b>(637,675)</b>	<b>(636,691)</b>	<b>984</b>
<b>Excess of revenues over expenditures and other financing uses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 206,558</b>	<b>\$ 206,558</b>

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

**COMMONWEALTH OF PUERTO RICO**  
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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**JUNE 30, 2013**

**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 ensuing fiscal year under laws existing at the time the budget is prepared.

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

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis encumbrances outstanding at year- end are reported in the governmental funds statements as 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**  
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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**June 30, 2013**

**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>\$ 206,558</b>
Budget to GAAP differences	
<b>Entity differences</b>	
Non-budgeted funds recorded as revenues for financial reporting purposes	82,438
Non-budgeted funds recorded as expenditures for financial reporting	(639,279)
Non-budgeted transfers in	988,451
Non-budgeted transfers out	(108,619)
<b>Basis of accounting differences</b>	
Revenues recorded for financial reporting purposes but not in budgetary basis	1,968,094
Revenues recorded in budgetary basis purposes but not in financial reporting	(965,452)
Expenditures recorded in budgetary basis but not for financial reporting purposes	550
Expenditures recorded for financial reporting purposes but not in budgetary basis	(891,293)
<b>Timing differences</b>	
Current year encumbrances recorded as expenditures for budgetary reporting purposes	29,300
Prior year encumbrances recorded as expenditures for financial reporting purposes	(43,407)
<b>Net change in fund balance (GAAP basis)</b>	<b><u>\$ 627,341</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, 2013

Line Item No.	Description	14,871	
		Housing Choice Vouchers	
Balance Sheet			
111	Cash - unrestricted	\$	13,648
113	Cash - other restricted	\$	-
100	<b>Total cash</b>	<b>\$</b>	<b>13,648</b>
121	Accounts receivable - PHA projects	\$	-
122	Accounts receivable - HUD other projects	\$	-
125	<b>Accounts receivable - miscellaneous</b>	<b>\$</b>	<b>-</b>
126.2	Allowance for doubtful accounts - other	\$	-
128	Fraud recovery	\$	-
128.1	Allowance for doubtful accounts - fraud	\$	-
120	Total receivables, net of allowance for doubtful accounts	<b>\$</b>	<b>-</b>
144	Inter program - due from	\$	-
150	<b>Total Current Assets</b>	<b>\$</b>	<b>13,648</b>
164	Furniture, equipment and machinery - administration	\$	2,009
166	Accumulated depreciation	\$	(1,808)
160	Total capital assets, net of accumulated depreciation	<b>\$</b>	<b>201</b>
180	<b>Total Non-current Assets</b>	<b>\$</b>	<b>201</b>
190	<b>Total Assets</b>	<b>\$</b>	<b>13,849</b>
312	Accounts payable <= 90 days	\$	-
313	Accounts payable > 90 days past due	\$	-
321	Accrued wage/payroll taxes payable	\$	-
322	Accrued compensated absences - current portion	\$	671
331 - 030	Accounts payable - HUD PHA programs - Other	\$	-
332	Accounts Payable - PHA Projects	\$	-
333	Accounts payable - other government	\$	-
341	Tenant security deposits	\$	-
342	Deferred revenue	\$	-
345	Other current liabilities	\$	-
347	Inter-program - due to	\$	-
348	Loan Liability - current	\$	-
310	<b>Total Current Liabilities</b>	<b>\$</b>	<b>671</b>
353	Non-current liabilities - other	\$	-
354	Accrued compensated absences - non current	\$	-
350	<b>Total Non-current Liabilities</b>	<b>\$</b>	<b>-</b>
300	<b>Total Liabilities</b>	<b>\$</b>	<b>671</b>
508.1	Invested in Capital Assets, Net of Related Debt	\$	201
511.1	Restricted Net Assets	\$	-
512.1	Unrestricted Net Assets	\$	12,977
513	<b>Total Equity/Net Assets</b>	<b>\$</b>	<b>13,178</b>
600	<b>Total Liabilities and Equity/Net Assets</b>	<b>\$</b>	<b>13,849</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON

SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE  
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION  
JUNE 30, 2013

Line Item No.	Description	14.871	
			Housing Choice Vouchers
<b>Income Statement</b>			
70600-010	Housing assistance payments	\$	122,463
70600-020	Ongoing administrative fees earned	\$	22,052
70600-070	Admin fee calculation description		
70600	<b>HUD PHA operating grants</b>	\$	<b>144,515</b>
71100-010	Housing Assistance Payment	\$	-
71100-020	Administrative Fee	\$	-
71100	<b>Investment income - unrestricted</b>	\$	-
71400-010	Housing Assistance Payment	\$	-
71400-020	Administrative Fee	\$	-
71400	<b>Fraud recovery</b>	\$	-
71500	Other revenue	\$	2,891
71600	Gain or loss on the sale of capital assets	\$	-
72000-010	Housing Assistance Payment	\$	-
72000-020	Administrative Fee	\$	-
72000	<b>Investment income - restricted</b>	\$	-
700	<b>Total Revenue</b>	\$	<b>147,406</b>
91100	Administrative salaries	\$	14,316
91200	Auditing fees	\$	-
91500	Employee benefit contributions- administrative	\$	6,109
91600	Office expenses	\$	-
91000	<b>Total Operating - Administrative</b>	\$	<b>20,425</b>
96200	Other general expenses	\$	3,362
96210	Compensated absences	\$	-
96600	Bad debt - other	\$	-
96000	<b>Total Other General Expenses</b>	\$	<b>3,362</b>
96900	<b>Total Operating Expenses</b>	\$	<b>23,787</b>
97000	<b>Excess Revenue Over Operating Expenses</b>	\$	<b>123,619</b>
977300-020	Home-Ownership	\$	-
97300-050	All Other	\$	120,274
97350-B	<b>HAP Portability-out</b>	\$	10,571
97300	<b>Housing assistance payments</b>	\$	<b>130,845</b>
97350	<b>HAP Portability-in</b>	\$	2,350
97400	Depreciation expense	\$	-
97500	Fraud losses	\$	-
900	<b>Total Expenses</b>	\$	<b>156,982</b>
10000	<b>Excess (Deficiency) of Revenue Over (Under) Expenses</b>	\$	<b>(9,576)</b>
11030	Beginning equity	\$	22,754
11040-010	Prior period adjustments and correction of errors - Editable	\$	-
11040	<b>Prior period adjustments, equity transfers, and correction of errors</b>	\$	-
11770-001	Administrative Fee Equity - Beginning Balance	\$	14,372
11170-010	Administrative Fee Revenue	\$	22,052
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	\$	2,891
11170-051	Comment For Other Revenue		13 (\$2,350)
11170-060	Total Admin Fee Revenues	\$	24,943
11170-080	Total Operating Expenses	\$	23,787
11170-090	Depreciation	\$	-
11170-095	Housing Assistance Portability In	\$	2,350
11170-100	Other Expenses	\$	-
11170-101	Comment For Other Expense		-
11170-110	Total Expenses	\$	26,137
11170-002	Net Administrative Fee	\$	(1,194)
11170-003	Administrative Fee Equity - Ending Balance	\$	13,178
11170	<b>Administrative Fee Equity</b>	\$	<b>13,178</b>
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$	8,382
11180-010	Housing Assistance Payments Revenues	\$	122,463
11180-015	Fraud Recovery Revenue	\$	-
11180-020	Other Revenue	\$	-
11180-021	Comment For Other Revenue		-
11180-025	Investment Income	\$	-
11180-030	Total HAP Revenues	\$	122,463
11180-080	Housing Assistance Payments	\$	130,845
11180-090	Other Expenses	\$	-
11180-091	Comment For Other Expense		-
11180-100	Total Housing Assistance Payments Expenses	\$	130,845
11180-002	Net Housing Assistance Payments	\$	(8,382)
11180-003	Housing Assistance Payments Equity - Ending Balance	\$	-
11180	<b>Housing Assistance Payments Equity</b>	\$	<b>-</b>
11190-210	Total ACC HCV Units		408
11190-220	Unfunded Units		-
11190-230	Other Adjustments		-
11190	<b>Unit Months Available</b>		<b>408</b>
11210	<b>Unit Months Leased</b>		<b>408</b>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF RINCON**  
**NOTE TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE**  
**June 30, 2013**

**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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>			
Passed-through program from:			
<u>P.R. Department of Education</u> Child and Adult Care Food Program	10.558	CCC-110	25,029
<b>U.S. Department of Housing and Urban Development</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 Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	AB - 53, FD - 53	827,938
<u>P.R. Department of Family:</u> ARRA - Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.262	122-2010-000229	2,859
<b>Subtotal U.S. Department of Housing and Urban Development</b>			<u>970,254</u>
<b>U.S. Department of Justice</b>			
Passed-through programs from:			
<u>P.R. Department of Justice:</u> ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories	16.803	2009-SU-IPRIN-01	75,000
<b>U.S. Department of Transportation</b>			
Passed-through program from:			
<u>P.R. Department of Transportation and Public Works (P.R. Highway and Transportation Authority):</u> ARRA - Federal Transit_Capital Investment Grants	20.500	PR-96-X026-00	145,746
<b>U.S. Department of Energy</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	14,840
<b>U.S. Department of Health and Human Services</b>			
Passed-through programs from:			
<u>P.R. Office of Ombudsman Administration (OAP):</u> Special Programs for the Aging_Tittle III Part D_ Disease Prevention and Health Promotion Services	93.043	120125R2, 130430R2	4,438
<b>Aging Cluster:</b>			
Special Programs for the Aging_Tittle III Part B_ Grants for Supportive Services and Senior Centers	93.044	120125R2, 130429R2	31,476
Special Programs for the Aging_Tittle III, Part C_Nutrition Services	93.045	120125R2, 130430R2	75,696
Nutrition Services Incentive Program	93.053	120125R2, 130430R2	23,935
<b>Total Aging Cluster:</b>			<u>131,107</u>
<u>P.R. Department of Family - Families and Children Administration:</u> Child Care and Development Block Grant	93.575	241-2012-000045, 241-2013-000180	79,904
<b>Subtotal U.S. Department of Health and Human Services:</b>			<u>215,449</u>
<b>U.S. Department of Homeland Security</b>			
Passed-through programs from:			
P.R. Governor's Office - Governor's Authorized Representative (GAR) Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA -4017-DR-PR, PA 117-99117-00	159,953
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 1,606,271</u></u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RINCON  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2013**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2013. 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 the 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 position 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.

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

Description	USHUD - Community Development Block Grant Program Fund	PR Department of Transportation (DTP) Fund	Other Governmental Funds
10.558	\$ -	\$ -	\$ 25,029
14.228	827,938	-	-
14.871	-	-	139,457
ARRA – 14.262	-	-	2,859
ARRA – 16.803	-	-	75,000
ARRA – 20.500	-	145,746	-
ARRA – 81.128	-	-	14,840
93.043	-	-	4,438
93.044	-	-	31,476
93.045	-	-	75,696
93.053	-	-	23,935
93.575	-	-	79,904
93.036	-	-	159,953
Total federal awards expenditures:	827,938	145,746	632,587
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program	-	-	17,644
Non-federal awards expenditures	-	-	1,319,095
Total expenditures, fund statements	<u>\$ 827,938</u>	<u>\$ 145,746</u>	<u>\$ 1,969,326</u>

# VALDES, GARCIA, MARIN & MARTINEZ, LLP

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

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

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Rincon, (the Municipality), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated March 10, 2014.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Urdiles, García, Marín y Martínez, LLP*

San Juan, Puerto Rico  
March 10, 2014

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# VALDES, GARCIA, MARIN & MARTINEZ, LLP

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

### **Report on Compliance for Each Major Federal Program**

We have audited the Municipality of Rincon's (the Municipality) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2013. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Municipality's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control over Compliance**

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Valdís Barón, Marín & Martínez, LLP*

San Juan, Puerto Rico  
March 10, 2014

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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, 2013**

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 and Non-Entitlement Grant in Hawaii

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, 2013**

**Section II - Financial Statements Findings**

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FISCAL YEAR ENDED JUNE 30, 2013**

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

Finding

No matters reported.