



**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, 2014***



***Mr. Carlos López-Bonilla
Mayor***

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

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Member of the
Municipal Assembly
Rincón, 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 **Municipality of Rincón, Puerto Rico**, as of and for the year ended June 30, 2014, 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.

Auditor's 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 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 of Rincón, Puerto Rico**, as of June 30, 2014, 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 3 through 13 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:

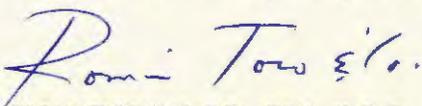
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Rincón, Puerto Rico's** basic financial statements. The financial data schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and also is not a required part of the basic financial statements.

The financial data schedule and the schedule of expenditures of federal awards are the responsibility of management and was 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the financial data schedule and the schedule of expenditures of federal awards are fairly stated in all material aspects 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 December 30, 2014, on our consideration of the **Autonomous Municipality of Rincón, Puerto Rico'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 **Autonomous Municipality of Rincón, Puerto Rico's** internal control over financial reporting and compliance.


ROMAN TORO & CO., CPA, C.S.P.
LICENSE # 35 - IN FORCE

Yauco, Puerto Rico
December 30, 2014

Stamp #E115263 was affixed to
the original report

MANAGEMENT DISCUSSION AND ANALYSIS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

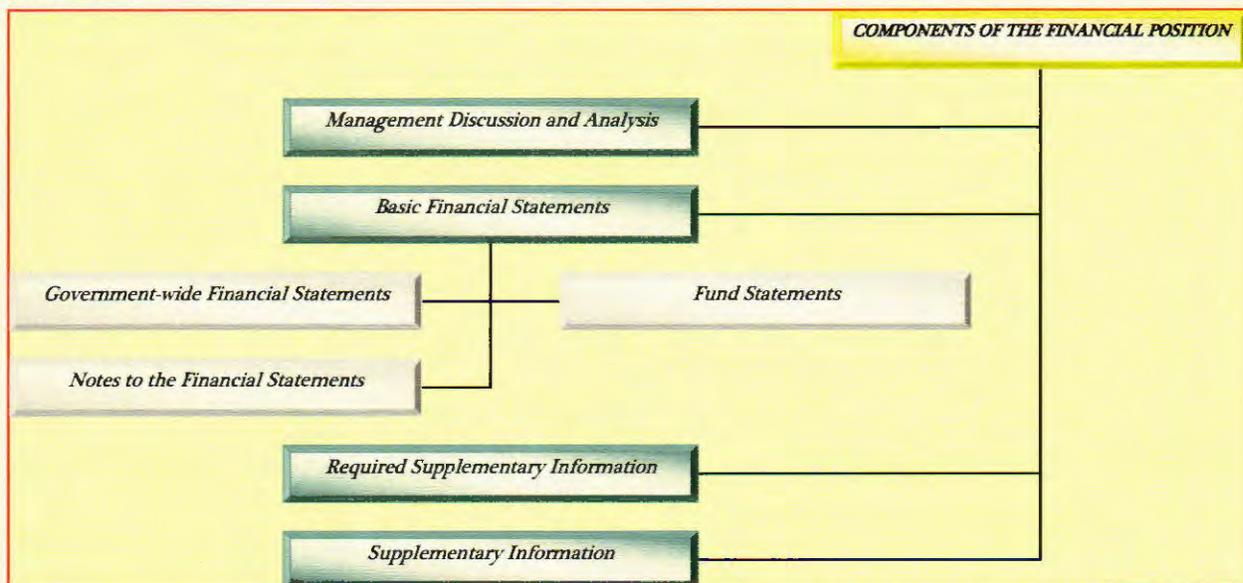
The discussion and analysis of the Municipality of Rincon's financial performance provides an overall review of the Municipality's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the Municipality's financial performance as a whole; this 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. Those basic financial statements follows this section.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality, exceeded its liabilities at the close of fiscal year 2014 by \$36,704,390 (net position). Of this amount, \$1,464,447 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- Revenues increased 18% and expenses decreased 18% when compared with prior fiscal year 2013. As a result, the net position increased \$3,024,284 or 9% with respect of prior year net position.
- A positive net change in fund balances of the Municipality's governmental funds of \$4,699,016 for the current fiscal year 2014 resulted in reported ending fund balances of \$10,237,887, increasing 85% in comparison with 2013 fiscal year. Approximately 31% of the total fund balances is unrestricted (committed, assigned or unassigned).
- For the fiscal year 2014, the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$1,328,655 increasing its fund balance to \$3,948,322 or 51% in comparison with the prior fiscal year. The unassigned fund balance amounts to \$1,750,258 or an increase of 21% as compared to 2013.
- The investment in capital assets as of June 30, 2014 was \$36,250,275 (net of depreciation).
- Long-term debt increased to \$11,921,480 or approximately 23% with respect to the prior year.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$330,189.

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, 2014**

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, housing, welfare, and community development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- ***Fund Financial Statements***

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

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of spendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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's 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, 2014 and 2013:

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

	Governmental Activities	
	2014	2013
Assets		
Current and other assets	\$ 14,027,019	\$ 9,531,787
Capital assets	36,250,275	35,772,726
Total assets	\$ 50,277,294	\$ 45,304,513
Liabilities		
Current and other liabilities	1,651,424	1,937,850
Long-term liabilities	11,921,480	9,686,557
Total liabilities	13,572,904	11,624,407
Net Position		
Net investment in capital assets	30,373,665	29,375,836
Restricted	4,866,278	4,229,225
Unrestricted	1,464,447	75,045
Total net position	\$ 36,704,390	\$ 33,680,106

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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, 2014, assets exceeded its liabilities by \$36,704,390. Of this amount, \$1,464,447 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 (83%) 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 an increase of 9% with respect to fiscal period 2013. Revenues increased 18% and expenses decreased 18% when compared with prior fiscal year 2013. The most significant revenue increases were in property taxes (32%), operating grants (91%), capital grants (40%) and fees, fines and charges for services (21%). 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. The recording of this non-recurrent expense as a prior year expense was the main cause of the \$2,778,046 decrease in current year expenses, when compared with the 2013 fiscal year.

Changes in net position

The following table summarizes the changes in net position for the fiscal years ended 2014 and 2013:

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

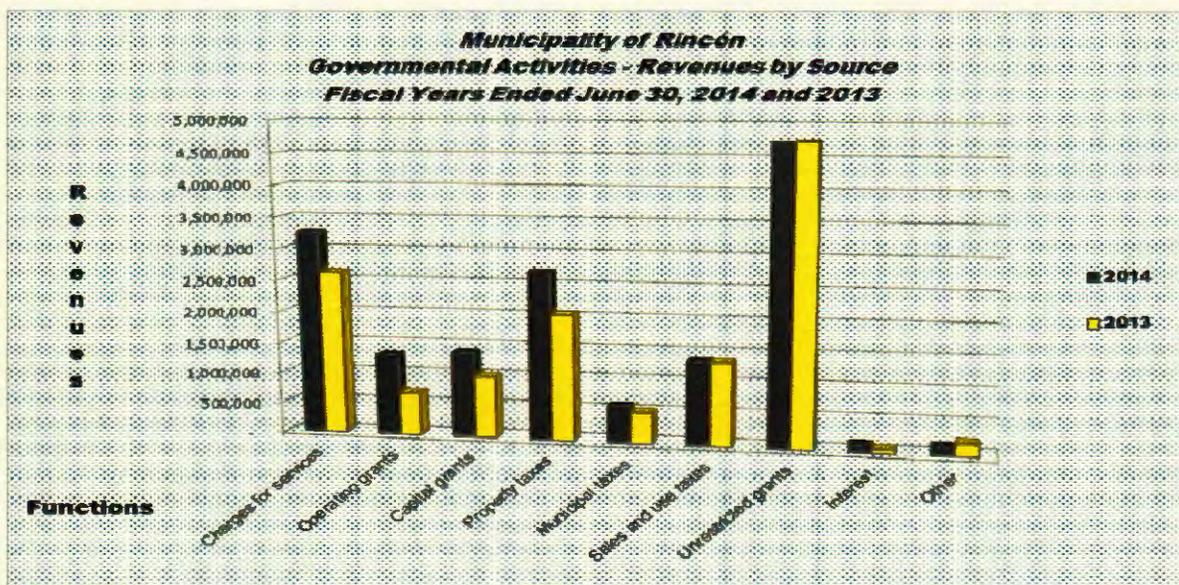
	Governmental Activities	
	2014	2013
Program revenues:		
Fees, fines and charges for services	\$ 3,263,296	\$ 2,628,182
Operating grants and contributions	1,314,078	686,853
Capital grants and contributions	1,387,373	989,337
General revenues:		
Property taxes	2,696,732	2,038,702
Municipal license taxes	585,671	499,237
Sales and use taxes	1,351,628	1,343,936
Grants and contributions not restricted to specific programs	4,710,157	4,730,788
Interest	120,675	62,912
Other	132,076	203,217
Total revenues	15,561,686	13,183,164

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

<i>Summary of Changes in Net Position As of June 30,</i>		
	Governmental Activities	
	2014	2013
Expenses:		
General government	5,979,362	5,392,754
Public works and sanitation	3,204,923	6,472,412
Public safety	927,685	978,070
Culture and recreation	924,146	869,954
Health	320,817	320,817
Housing, welfare and community development	789,488	960,715
Education	3,773	4,350
Interest on long term debt	387,208	316,376
Total expenses	12,537,402	15,315,448
Change in net position	3,024,284	(2,132,284)
Net position-beginning of year	33,680,106	35,812,390
Net position-end of year	\$ 36,704,390	\$ 33,680,106

The three major sources of revenues of the Municipality in fiscal year 2014 are: unrestricted grants and contributions (30%), charges for services (21%) and property taxes (17%). Revenues increased 18% with respect to prior fiscal year. This net increase is due mainly to (1) an increase of 32% in property taxes caused by a non-recurrent property tax amnesty revenue, (2) an increase of 91% in operating grants due to the collection of a grant from Rural Development Corporation (CDR) to finance the construction of the marine facilities (3) an increase of 40% in capital grants due to an increase in CDBG funds and (4) an increase of 21% in fees, fines and charges for services due to an increase in compensation in lieu of tax from PREPA. The following **Figure 1** illustrates the revenue comparison between 2014 and 2013:

FIGURE 1

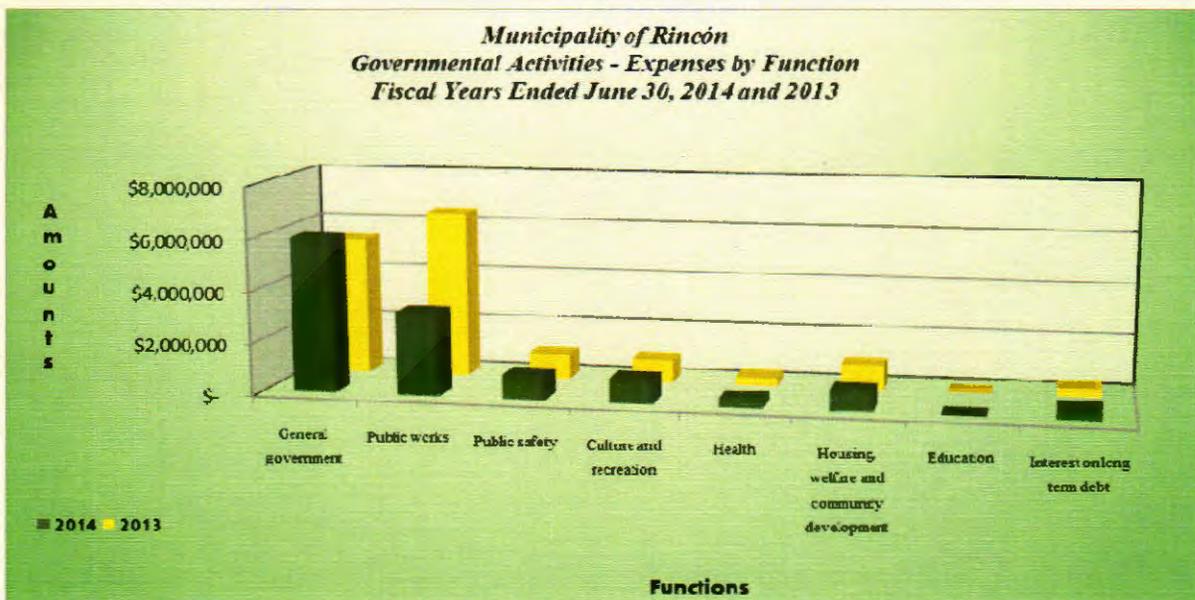


**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

The Municipality's expenses cover a range of services. The largest expenses are general government with 48% and public works and sanitation with 26%.

Total expenses decreased 18% when compared with fiscal year 2013. As discussed earlier the main reason of this is a decrease of 50% in public works and sanitation expenses due to the recognition in as expense in prior year of a transfer of the "Barrero Sanitary Sewer System" to PRASA amounting \$2,689,497. As a result, the net position increased \$3,024,284 or 9% with respect of prior year net position. The following **Figure 2** illustrates the expenses comparison between 2014 and 2013:

FIGURE 2



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 2014 and 2013 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, 2014**

TABLE 3

<i>Expenses Net of Program Revenues As of June 30,</i>		
Net expenses	2014	2013
General government	\$ (2,487,066)	\$ (2,526,019)
Public works and sanitation	(2,489,856)	(5,764,039)
Public safety	(888,609)	(872,742)
Culture and recreation	(868,416)	(859,254)
Health	(320,817)	(320,817)
Housing, welfare and community development	873,090	(347,479)
Education	(3,773)	(4,350)
Interest on long term debt	(387,208)	(316,376)
Total expenses, net of program revenues	(6,572,655)	(11,011,076)
General revenues		
Taxes	4,634,031	3,881,875
Grants and contributions not restricted to specific programs	4,710,157	4,730,788
Interest and other	252,751	266,129
Total general revenues	9,596,939	8,878,792
Change in net position	\$ 3,024,284	\$ (2,132,284)

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$3,263,296) and other governments and organizations that subsidized certain programs with grants and contributions (\$2,701,451). The net cost of services \$(6,572,655) was covered by other general revenues including taxes and other grants and contributions not restricted for specific programs.

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, 2014, the governmental funds reported ending fund balances of \$10,237,887, a net increase of 85% in comparison with the prior year. Thirty one percent (31%) of the total fund balances or \$3,202,166 constitutes unrestricted fund balance, of which \$1,155,969 (or 11%) 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, 2014**

- ***General Fund***

The general fund is the operating fund of the Municipality. The fund balance of the general fund represents approximately 39% of total ending fund balances. Of the total fund balance 4% or \$151,867 is restricted mainly to finance the maintenance of the sunset village facilities as required by grant agreement; 27% of the fund balance is committed and 25% is assigned for public works, sanitation and general government purposes. The remainder of the unrestricted fund balance of \$1,750,258 is unassigned fund balance, which represents 44% of the total fund balance of the general fund. Unassigned fund balance increased 21% with respect to the prior year.

During the fiscal year the fund balances of the general fund increased by \$1,328,655 or 8% in comparison with 2013 fiscal year due to increases in taxes, intergovernmental revenues and charges for services. The main sources of revenues of the general fund in fiscal year 2014 are: intergovernmental subsidies from the Commonwealth with 42%, taxes (property taxes, sales and use taxes and municipal license taxes) with 31% and charges for services with 26%. Expenditures increased 2%. The largest expenditures of the general fund are general government with 53%, public works and sanitation with 25%.

- ***Commonwealth Legislature Fund***

This fund report revenue sources from grants provided by the Commonwealth's Legislature restricted for specific purposes. During the 2014 the fund balance increased by \$116,236. The fund received additional grants of \$355,000. Amounts were expended in public works and capital outlays. The most significant expenditure is a transfer to the Rural Development Corporation (CDR) - marine facilities fund to provide additional funding to the marine facilities project.

- ***Debt Service Fund***

The debt service fund reported an increase in fund balance during the current year of \$415,654 or 22% in comparison with 2013 to bring the year-end fund balance to \$2,300,136. Debt service fund balance represents 22% of total fund balances. Revenues increase 22% as a result of a non-recurrent property tax amnesty revenue collected in 2014. There were no significant variance of expenditures with respect to prior year.

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

With respect to previous year, the CDBG fund operation presents a decrease in expenditures. Of the major projects financed with CDBG funds, one of them the Municipality was completed in 2014 (“Facilidades Recreativas Sect. Emiliano Bo. Cruces”). Fund balance increased by \$168,742 for unavailable revenues in 2013 recorded as revenues in 2014 year. Fund balance presents a deficit as liabilities and deferred inflows of resources exceed assets for unavailable revenues recorded.

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

Fund balance changed by \$499,754 due to a \$301,000 grant and a transfer from the Commonwealth Legislature Resolutions Fund. Management decided to record the fund as major since the project will began the construction process in next fiscal period.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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

There was no significant change during the 2014 year. During the year incurred costs were related to Project's design. Management decided to record the fund as a major fund for the importance of this project to the Municipality's operations in the future.

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

During the year the fund incurred \$363,376 financed mostly with a grant from the Federal Transit Administration for the acquisition of two trolleys.

- ***Capital Projects – Bonds and Notes Issuance Fund***

During the year the fund received proceeds from a general obligation bond issuance of \$2,310,000. The fund also incurred in \$192,843 in expenditures. The fund was recorded as other governmental fund in 2013.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal year 2013-2014 presented a 3% increase with respect to the prior year budget. Actual revenues exceeded revised budgeted revenues by \$514,961 (net). The Municipality also reported a negative variance of \$185,520 between revised budgeted appropriations and actual expenditures. Actual revenues exceeded actual expenditures by \$330,189.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$36,250,275 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of 1% over the prior year.

TABLE 4

<i>Capital Assets, net As of June 30,</i>		
	Governmental Activities	
	2014	2013
Non-depreciable assets:		
Land	\$ 7,960,293	\$ 7,960,293
Construction in progress	2,121,259	2,651,211
Depreciable assets (net):		
Land improvements	666,390	713,863
Buildings and buildings improvements	17,558,898	16,637,218
Infrastructure	5,793,929	5,904,012
Vehicles, machinery and equipment	2,149,506	1,906,129
Total	\$ 36,250,275	\$ 35,772,726

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

The Municipality's major capital projects that were still in construction and the related construction in progress cost as of June 30, 2014 are as follows:

- Construction of recreational facilities on Barrero Ward – \$738,517
- Urban park project - \$502,970
- Rio Grande Residential Development - \$281,061
- Remodeling of P.R. road #115 entrance - \$225,986

A major project "Recreational Facilities at Emiliano sector, Cruces ward" for a total cost of \$1,372,486 was finished and transferred from construction in progress to building function. Equipment for a total amount of \$641,430 was placed in use during 2014 including two trolleys for a cost of \$163,663 each, vehicles for a total cost of \$83,971, and a virtual surveillance equipment for a total cost of \$74,996.

The Municipality's fiscal year 2014-2015 capital budget calls for a significant amount of projects including 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, 2014 and 2013:

TABLE 5

<i>Outstanding Long-term Debt Fiscal years ended June 30,</i>			
	Governmental Activities		
	2014	2013	
General and special obligation bonds and notes	\$ 8,959,000	\$ 7,225,000	
Note payable to CRIM – Law No. 42	378,083	389,288	
Note payable to CRIM – financing of delinquent accounts	37,054	39,112	
Payable to PREPA	929,491	566,675	
Compensated absences	1,312,832	1,306,779	
Christmas bonus payable	142,950	150,054	
Payable to CRIM from property tax advances	18,603	9,649	
Judgments and claims	16,000	-	
GDB line of credit – "Ojo de Agua Hotel"	127,467	-	
Total	\$ 11,921,480	\$ 9,686,557	

At year-end, the Municipality had \$8,959,000 in general and special bonds and notes, an increase with respect to the prior year due to the issue of the \$2,310,000 bond during 2014. The Municipality has no significant change with respect to other long-term debts (other than general obligation bonds and notes) with respect to 2013 year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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 2014-2015 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 2014 stands at 13.1%, and the Commonwealth rate stands at 12.8%.

For year 2014-2015 the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are \$9,130,000 representing a decrease of approximately 1% with respect to prior year estimates. Budgeted expenditures are expected to be according to the decrease 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 2014-2015 fiscal year. In addition to the general fund estimated budget the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works.

The 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 strength sinking funds to assess financial markets. The Commonwealth estimates that these corrective actions, along 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 Act No. 18 and 19. Those Act's provides 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.

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, 2014**

	Governmental Activities
<u>ASSETS</u>	
Cash and cash equivalents	\$ 4,109,130
Receivables, net:	
Municipal license taxes	15,480
Others	16,900
Due from:	
Commonwealth Government	1,441,514
Federal Government	720,770
Restricted assets:	
Cash and cash equivalents	1,980,761
Cash with fiscal agent	5,742,464
Capital assets:	
Land and construction in progress	10,081,552
Other capital assets, net	26,168,723
Total capital assets, net	36,250,275
Total assets	50,277,294
<u>LIABILITIES</u>	
Accounts payable and accrued liabilities	901,625
Interest payable	196,261
Due to:	
Commonwealth Government	151,345
Federal Government	5,574
Unearned revenues:	
Municipal License taxes	384,939
Intergovernmental-Federal grants	11,680
Long-term liabilities:	
Due within one year	1,398,429
Due in more than one year	10,523,051
Total liabilities	13,572,904
<u>NET POSITION</u>	
Net investment in capital assets	30,373,665
Restricted for:	
Debt service	2,778,276
Capital Projects	1,863,836
Other specified purposes	224,166
Unrestricted	1,464,447
Total net position	\$ 36,704,390

The accompanying notes are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

<u>Functions</u>	<u>Program Revenues</u>			<u>Net (expenses) revenues and changes in net position</u>	
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental Activities:					
General government	\$ 5,979,362	\$ 3,261,421	\$ 165,688	\$ 65,187	\$ (2,487,066)
Public works and sanitation	3,204,923	-	620,173	94,894	(2,489,856)
Public safety	927,685	-	39,076	-	(888,609)
Culture and recreation	924,146	1,875	53,855	-	(868,416)
Health	320,817	-	-	-	(320,817)
Welfare and community development	789,488	-	435,286	1,227,292	873,090
Education	3,773	-	-	-	(3,773)
Interest on long-term debt	387,208	-	-	-	(387,208)
Total	<u>\$ 12,537,402</u>	<u>\$ 3,263,296</u>	<u>\$ 1,314,078</u>	<u>\$ 1,387,373</u>	<u>(6,572,655)</u>
 General revenues :					
Taxes:					
					2,696,732
					585,671
					1,351,628
					4,710,157
					120,675
					132,076
					<u>9,596,939</u>
					3,024,284
					<u>33,680,106</u>
					<u>\$ 36,704,390</u>

The accompanying notes are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

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)	Capital Projects - Bonds and Notes Issuance Fund	Other Governmental Funds	Total Governmental Funds
Assets										
Cash and cash equivalents	\$ 4,109,130	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,109,130
Receivables, net:										
License taxes	15,480	-	-	-	-	-	-	-	-	15,480
Other	16,900	-	-	-	-	-	-	-	-	16,900
Due from:										
Commonwealth Government	1,127,003	-	154,739	-	-	-	-	-	159,772	1,441,514
Federal Government	-	-	-	407,616	-	-	177,128	-	136,026	720,770
Other funds	449,708	-	-	-	-	-	-	-	-	449,708
Restricted assets:										
Cash and cash equivalents	-	630,963	-	2	820,468	-	14,050	-	673,928	2,139,411
Cash with fiscal agent	-	-	2,883,039	-	-	-	-	2,700,775	-	5,583,814
Total assets	\$ 5,718,221	\$ 630,963	\$ 3,037,778	\$ 407,618	\$ 820,468	\$ -	\$ 191,178	\$ 2,700,775	\$ 969,726	\$ 14,476,727
Liabilities Deferred Inflows of Resources and Fund Balances (deficit)										
Liabilities:										
Accounts payable and accrued liabilities	\$ 231,610	\$ 8,401	\$ -	\$ 276,911	\$ -	\$ -	\$ 177,128	\$ 53,159	\$ 154,416	\$ 901,625
Matured bonds and interest payable	-	-	674,401	-	-	-	-	-	-	674,401
Due to:										
Commonwealth Government	151,345	-	-	-	-	-	-	-	-	151,345
Federal Government	-	-	-	-	-	-	-	-	5,574	5,574
Other funds	-	-	-	130,707	-	-	-	-	319,001	449,708
Unearned revenues:										
Municipal License taxes	384,939	-	-	-	-	-	-	-	-	384,939
Intergovernmental - Federal grants	-	-	-	-	-	-	-	-	11,680	11,680
Total liabilities	767,894	8,401	674,401	407,618	-	-	177,128	53,159	490,671	2,579,272
Deferred Inflow of Resources:										
Unavailable revenues - Commonwealth Government										
Funds	1,000,962	-	63,241	-	-	-	177,128	-	159,772	1,401,103
Unavailable revenues - Federal Grants	-	-	-	125,398	-	-	-	-	132,024	257,422
Other	1,043	-	-	-	-	-	-	-	-	1,043
Total deferred inflow of resources	1,002,005	-	63,241	125,398	-	-	177,128	-	291,796	1,659,568
Fund Balances (deficit):										
Restricted	151,867	622,562	2,300,136	-	820,468	-	14,050	2,647,616	479,022	7,035,721
Committed	1,072,216	-	-	-	-	-	-	-	-	1,072,216
Assigned	973,981	-	-	-	-	-	-	-	-	973,981
Unassigned	1,750,258	-	-	(125,398)	-	-	(177,128)	-	(291,763)	1,155,969
Total fund balances (deficit)	3,948,322	622,562	2,300,136	(125,398)	820,468	-	(163,078)	2,647,616	187,259	10,237,887
Total liabilities, deferred inflows of resources and fund balances (deficit)	\$ 5,718,221	\$ 630,963	\$ 3,037,778	\$ 407,618	\$ 820,468	\$ -	\$ 191,178	\$ 2,700,775	\$ 969,726	\$ 14,476,727

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, 2014**

Total fund balances - governmental funds		\$ 10,237,887
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		36,250,275
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	\$ 71,471	
Property taxes- Debt Service Fund	63,241	
P.R. Department of Transportation (DTOP)	177,128	
P.R. Electric Power Authority (PREPA)	929,491	
P.R. Department of Labor - Law No. 52	120,696	
OCAM - Public Order Code	39,076	
Other	1,043	1,402,146
Due from Federal Government:		
Federal grant - CDBG	125,398	
Federal grant - Child Care Program	79,975	
Federal grant - Child Care Food Program	490	
Federal grant - FEMA Irene Storm	38,900	
Federal grant - P.R. Office of the Ombudsman for the Elderly	12,659	257,422
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds		(11,860)
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	(8,469,000)	
Note payable to CRIM-Law No. 42	(378,083)	
Note payable to CRIM-financing of delinquent accounts	(37,054)	
Payable to CRIM - property tax advances	(18,603)	
Compensated absences	(1,312,832)	
Christmas Bonus	(142,950)	
Judgments and claims-legal cases	(16,000)	
Debt payable to P.R. Electric Power Authority	(929,491)	
Line of Credit	(127,467)	(11,431,480)
Net position of governmental activities:		\$ 36,704,390

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, 2014

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)	Capital Projects - Bonds and Notes Issuance Fund	Other Governmental Funds	Total Governmental Funds
Revenues:										
Taxes:										
Property taxes	\$ 1,870,824	\$ -	\$ 961,532	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,832,356
Municipal license taxes	585,009	-	-	-	-	-	-	-	-	585,009
Sales and use taxes	1,040,601	-	330,016	-	-	-	-	-	-	1,370,617
Intergovernmental:										
Commonwealth Government	4,713,713	355,000	-	-	301,000	-	364,826	-	364,491	6,099,030
Federal Government	-	-	-	918,976	-	-	-	-	497,308	1,416,284
Fees, fines and charges for services	2,900,481	-	-	-	-	-	-	-	-	2,900,481
Interest	8,655	-	2,244	-	-	-	-	106,278	3,498	120,675
Other	109,711	-	-	-	-	-	-	-	1,168	110,879
Total revenues	11,228,994	355,000	1,293,792	918,976	301,000	-	364,826	106,278	866,465	15,435,331
Expenditures:										
Current:										
General government	5,309,602	-	-	65,187	-	-	-	724	165,655	5,541,168
Public works and sanitation	2,526,750	25,824	-	-	-	-	36,050	39,647	21,904	2,650,175
Public Safety	832,624	-	-	-	-	-	-	-	6,280	838,904
Culture and recreation	515,414	-	-	-	-	-	-	-	-	515,414
Health	320,367	-	-	-	-	-	-	-	-	320,367
Welfare and community development	263,244	-	-	63,757	-	-	-	-	423,201	750,202
Education	-	-	-	-	-	-	-	677	-	677
Capital outlays	198,647	14,186	-	621,290	-	46,777	327,326	141,893	276,569	1,626,688
Debt Service:										
Principal	-	-	552,000	-	-	-	-	-	-	552,000
Interest	-	-	363,794	-	-	-	-	-	-	363,794
Bond issuance costs	-	-	-	-	-	-	-	9,902	-	9,902
Total expenditures	9,966,648	40,010	915,794	750,234	-	46,777	363,376	192,843	893,609	13,169,291
Excess (deficiency) of revenues over expenditures	1,262,346	314,990	377,998	168,742	301,000	(46,777)	1,450	(86,565)	(27,144)	2,266,040
Other financing sources (uses):										
General Long Term Debt Issuance	-	-	-	-	-	-	-	2,310,000	-	2,310,000
Proceeds from GDB credit line	-	-	-	-	-	122,976	-	-	-	122,976
Transfers in	111,142	-	39,022	-	198,754	-	-	-	5,811	354,729
Transfers (out)	(44,833)	(198,754)	(1,366)	-	-	-	-	(106,278)	(3,498)	(354,729)
Total other financing resources (uses)	66,309	(198,754)	37,656	-	198,754	122,976	-	2,203,722	2,313	2,432,976
Net change in fund balances (deficit)	1,328,655	116,236	415,654	168,742	499,754	76,199	1,450	2,117,157	(24,831)	4,699,016
Fund balances (deficit) at beginning of year, as restated	2,619,667	506,326	1,884,482	(294,140)	320,714	(76,199)	(164,528)	530,459	212,090	5,538,871
Fund balances (deficit) at end of year	\$ 3,948,322	\$ 622,562	\$ 2,300,136	\$ (125,398)	\$ 820,468	\$ -	\$ (163,078)	\$ 2,647,616	\$ 187,259	\$ 10,237,887

The accompanying notes are an integral part of this statement.

*OK by
calculations*

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

Net change in fund balances (deficit) - total governmental funds: \$ 4,699,016

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	\$ 1,626,688	
Less: current year depreciation	<u>(1,143,612)</u>	483,076

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

(26,724)

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

Christmas bonus reimbursement	71,471	
Property taxes- Debt Service Fund	63,241	
P.R. Electric Power Authority (PREPA)	751,870	
P.R. Department of Labor - Law No.52	120,696	
OCAM - Public Order Code	39,076	
Federal grant - P.R. Office for Ombudsman Administration (OAP)	12,659	
Federal grant - Child Care Program	79,565	
Federal grant - Child Care Food Program	490	
Federal grant - CDBG	58,076	
Other	<u>22,240</u>	1,219,384

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

Christmas bonus reimbursement-prior year	75,027	
Municipal License Tax - General Fund	381	
Property taxes-General Fund	198,865	
Sales and use tax-Debt Service Fund	18,989	
P.R. Department of Labor - Law No. 52	19,040	
P.R. Electric Power Authority (PREPA)	389,055	
P.R. Department of Labor - other state grant	10,401	
Federal grant - Hazzard Mitigation	15,000	
Federal grant - Child Care Program	81,866	
Federal grant - Child Care Food Program	4,949	
Federal grant - CDBG	226,818	
Federal grants- Title III-B, C1 and C2	1,796	
Federal Grant - Title III-E	23,052	
Federal Grant - Title CE	20,937	
Federal Grant - Title III-D	2,089	
Federal grant- NSIP	<u>4,764</u>	(1,093,029)

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

(2,432,976)

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

Matured bonds principal payments (net change)	(24,000)
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

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	576,000	
Other long term liabilities	<u>1,101,068</u>	1,677,068

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Compensated absences	(169,165)	
Christmas bonus	(142,950)	
Debt payment to P.R. Electric Power Authority	(1,127,806)	
Accrued interest (net change)	1,483	
CRIM Negative Property Tax Liquidation	(18,603)	
Judgments and claims-legal cases	(16,000)	
Other	<u>(4,490)</u>	<u>(1,477,531)</u>

Change in net position of governmental activities:

\$ 3,024,284

The accompanying notes are an integral part of these statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Municipality of Rincon (primary government) 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 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- 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.

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

Management's Discussion and Analysis

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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's criteria if the fund is particularly important to financial statement users (for Commonwealth Legislature Resolutions, Rural Development Corporation (CDR) - Marine Facilities, GDB \$690,000 Line of Credit - "Ojo de Agua" Hotel and P.R. Department of Transportation - DTOP Funds).

The Municipality reports the following major governmental funds:

General Fund: This is the operating fund of the Municipality and is used to account for and report all financial resources not accounted for and reported in another fund.

Commonwealth Legislature Resolutions Fund: This fund is used to account for and report revenue sources from grants provided by the Commonwealth's Legislature 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 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 (CDR) - 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").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Capital Projects – Bonds and Notes Issuance Fund: This fund is used to account for and report financial resources from bond proceeds and notes issuances which are restricted for acquisition or construction of capital assets. This fund reports transactions of individual funds of Bonds and Notes issued through GDB.

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

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

The Municipality reports 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).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Notes to Financial Statements

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

Required Supplementary Information

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

3. *Deposits and investments*

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

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

4. *Restricted assets*

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Receivables and due from governmental entities

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

6. Interfund receivables and payables

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances among funds are reported as "due from/to other funds".

7. Inventories

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

8. Capital assets

Capital assets reported in the governmental activities in the Statements of Net 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- Continued

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, claims and judgments, 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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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). The accompanying government-wide statements include an amount estimated as a contingent liability or liabilities as incurred.

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.
- 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

21. Future adoption of accounting pronouncements

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

- a. **GASB Statement No. 68** "*Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*". The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement will bring the effect of **GASB Statement No. 67** "*Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*" into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Retirement Systems. Cost-sharing employers of the Retirement Systems would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement No. 67 based on the their respective individual proportion to the collective net pension liability of all the governments participating. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).
- b. **GASB Statement No. 69** "*Government Combinations and Disposals of Government Operations*". This Statement establishes accounting and financial reporting standards related to 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).
- c. **GASB Statement No. 70** "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*". The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions this Statement are effective for financial statements for reporting beginning after June 15, 2013 (fiscal year ended June 30, 2015).
- d. **GASB Statement No. 71** "*Pension Transition for Contributions Made Subsequent to the Measurement Date*". The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of **GASB Statement No.68** to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement No.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
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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, governmental banks and a credit union located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks and credit unions must be fully collateralized for the amount deposited in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC) or the “Corporación para la Supervisión y Seguro de Cooperativas de Puerto Rico” (“COSSEC”), respectively. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality’s name.

At year-end the Municipality’s bank balance of deposits in commercial banks amounting to \$6,425,133 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 \$5,583,814.

NOTE C- DUE FROM GOVERNMENTAL ENTITIES

Amounts due from governmental entities as of June 30, 2014 follows:

	<u>Commonwealth Government Funds</u>	<u>Federal Government Funds</u>
<u>Major fund – General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 929,491	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	71,475	-
P.R. Department of Treasury – sales and use taxes-1% and Municipal Development fund	126,037	-
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes	73,551	-
P.R. Department of Treasury – sales and use taxes-Municipal Redemption Fund	81,188	-
<u>Major fund – CDBG fund:</u>		
Office of Commissioner of Municipal Affairs – CDBG	-	407,616
<u>Major fund – P.R. Department of Transportation fund:</u>		
P.R. Department of Transportation	-	177,128
<u>Other governmental funds:</u>		
P.R. Department of Labor – Law No. 52	120,696	-
P.R. Department of Justice – Public Order Code	39,076	-
P.R. Governor’s Office (GAR) – FEMA (Irene Storm)	-	38,900
P.R. Department of Family – Child Care Program	-	79,975
P.R. Department of Education – Child Care Food Program	-	2,359
P.R. Office of Ombudsman Administration (OAP)	-	14,596
U.S. Department of Housing and Urban Development – other federal funds	-	196
	<u>\$ 1,441,514</u>	<u>\$ 720,770</u>

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 H.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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	Major Funds:	
	USHUD - Community Development Block Grant Program (CDBG)	\$ 130,707
	Other Governmental Funds:	
	Child Care and Development Block Grant	96,961
	Child Care Food Program	5,408
	P.R. Department of Labor – Law No. 52	123,040
	P.R. Office of Ombudsman Administration (OAP)	15,616
	P.R. Governor’s Office (GAR) – FEMA Irene Storm	38,900
	P.R. Department of Justice – Public Order Code	39,076
Total:		<u>\$ 449,708</u>

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,
- b. Interest earned on restricted cash with fiscal agent in the debt service fund and operating and capital improvement loans in capital project – bonds and notes issuance fund which is transferred to the general fund and,
- c. A transfer from the Commonwealth Legislature resolutions fund to the Rural Development Corporation (CDR) - marine facilities fund to provide additional funding to the marine facilities project.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE E- FUND BALANCE

1. Fund balance classifications

The governmental fund balance classifications and amounts at June 30, 2014 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)	Capital Projects - Bonds and Notes Issuance Fund	Other Governmental Funds	Total
Restricted:										
General public works and sanitation	43,893	-	-	-	-	-	4,050	-	96,886	254,129
Sports, culture and recreation	8,674	-	-	-	-	-	-	-	-	8,674
Housing, welfare and community development	-	-	-	-	-	-	-	-	60,768	60,768
Debt service	-	-	2,300,136	-	-	-	-	-	-	2,300,136
Capital outlays	-	622,562	-	-	820,468	-	-	2,647,616	321,368	4,412,014
	<u>151,867</u>	<u>622,562</u>	<u>2,300,136</u>	<u>-</u>	<u>820,468</u>	<u>-</u>	<u>4,050</u>	<u>2,647,616</u>	<u>479,022</u>	<u>7,035,721</u>
Committed:										
General public works and sanitation	577,449	-	-	-	-	-	-	-	-	577,449
Capital outlays	56,579	-	-	-	-	-	-	-	-	56,579
General government and other purposes	438,488	-	-	-	-	-	-	-	-	438,488
	<u>1,072,216</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,072,216</u>
Assigned:										
General public works and sanitation	847,751	-	-	-	-	-	-	-	-	847,751
Public safety	43	-	-	-	-	-	-	-	-	43
Sports, culture and recreation	500	-	-	-	-	-	-	-	-	500
Housing, welfare and community development	-	-	-	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-	-	-	-
Capital outlays	50,000	-	-	-	-	-	-	-	-	50,000
General government and other purposes	75,587	-	-	-	-	-	-	-	-	75,587
	<u>973,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>973,981</u>
Unassigned	1,750,258	-	-	(125,398)	-	-	(177,128)	-	(291,763)	1,155,969
	<u>\$ 3,948,322</u>	<u>\$ 622,562</u>	<u>\$ 2,300,136</u>	<u>\$ (125,398)</u>	<u>\$ 820,468</u>	<u>\$ -</u>	<u>\$ (163,078)</u>	<u>\$ 2,647,616</u>	<u>\$ 187,259</u>	<u>\$ 10,237,887</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE E- FUND BALANCE – Continued

2. Fund balance deficits

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

Funds	Amount
Major Funds:	
USHUD - Community Development Block Grant Program (CDBG)	\$ 125,398
P.R. Department of Transportation	\$ 163,078
Other Governmental Funds:	
Child Care and Development Block Grant Program	\$ 78,604
P.R. Governor's Office (GAR) – FEMA Irene Storm	\$ 11,498
P.R. Department of Labor – Law No. 52	\$ 120,663
P.R. Department of Justice – Public Order Code	\$ 39,076

The deficits result from the recognition of deferred inflows of resources for unavailable revenues. 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. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary.

NOTE F- CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,960,293	\$ -	\$ -	\$ 7,960,293
Construction in progress	2,651,211	842,534	1,372,486	2,121,259
Total capital assets not being depreciated:	<u>10,611,504</u>	<u>842,534</u>	<u>1,372,486</u>	<u>10,081,552</u>
Capital assets, being depreciated:				
Land improvements	924,782	-	-	924,782
Buildings and building improvements	22,049,441	1,399,707	-	23,449,148
Infrastructure	10,826,434	136,700	-	10,963,134
Vehicles, machinery and equipment	8,039,042	641,430	267,241	8,413,231
Total capital assets being depreciated	<u>41,839,699</u>	<u>2,177,837</u>	<u>267,241</u>	<u>43,750,295</u>
Less accumulated depreciation for:				
Land improvements	210,919	47,473	-	258,392
Buildings and building improvements	5,412,223	478,027	-	5,890,250
Infrastructure	4,922,422	246,783	-	5,169,205
Vehicles, machinery and equipment	6,132,913	371,329	240,517	6,263,725
Total accumulated depreciation	<u>16,678,477</u>	<u>1,143,612</u>	<u>240,517</u>	<u>17,581,572</u>
Total capital assets being depreciated, net	<u>25,161,222</u>	<u>1,034,225</u>	<u>26,724</u>	<u>26,168,723</u>
Governmental activities capital assets, net	<u>\$ 35,772,726</u>	<u>\$ 1,876,759</u>	<u>\$ 1,399,210</u>	<u>\$ 36,250,275</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE F- CAPITAL ASSETS – Continued

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

Governmental activities:

General government	\$	149,409
Public works and sanitation		499,955
Public safety		54,678
Culture and recreation		408,495
Welfare and community development		30,625
Health		450
		<u>450</u>
Total depreciation expense, governmental activities	\$	<u>1,143,612</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.

NOTE G- LONG-TERM DEBT

I. Summary of long-term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2014:

	<u>Balance at July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2014</u>	<u>Due within one year</u>
General, Special Obligation					
Bonds and Notes	\$ 7,225,000	\$ 2,310,000	\$ 576,000	\$ 8,959,000	\$ 555,000
Note payable to CRIM- Law No. 42	389,288	-	11,205	378,083	11,909
Note payable to CRIM- financing of delinquent accounts	39,112	-	2,058	37,054	2,058
Compensated absences	1,306,779	169,165	163,112	1,312,832	132,955
Christmas Bonus	150,054	142,950	150,054	142,950	142,950
Payable to CRIM-property tax advances	9,649	18,603	9,649	18,603	-
Payable to PREPA	566,675	1,127,806	764,990	929,491	553,557
Judgments & Claims	-	16,000	-	16,000	-
\$690,000 line of Credit, GDB	-	127,467	-	127,467	-
	<u>\$ 9,686,557</u>	<u>\$ 3,911,991</u>	<u>\$ 1,677,068</u>	<u>\$ 11,921,480</u>	<u>\$ 1,398,429</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014 amount to \$8,959,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by law. Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of certain long-term debt issued for operational purposes (special obligation bond of \$635,000) are made through withholdings from the advances of property tax and amounts of municipal equalization fund sent to the Municipality by the Municipal Revenue Collection Center (CRIM). 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, 2014 follows:

	Outstanding Amount
1994 public improvement bonds of \$721,000 due in annual installments of \$17,000 to \$52,000 through January 1, 2017; bearing interest at 5%	\$ 148,000
2002 special obligation bonds of \$635,000 due in annual installments of \$5,000 to \$50,000 through January 1, 2027; bearing interest at rates ranging from 1.53% to 6.62% (1.48 at June 30, 2014)	475,000
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% (5% at June 30, 2014)	24,000
2004 general obligation bonds of \$530,000 due in annual installments of \$12,000 to \$35,000 through January 1, 2029; bearing interest at rates of 4.25%	384,000
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% (1.48% at June 30, 2014)	445,000
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% (1.48% at June 30, 2014)	355,000
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% (1.48% at June 30, 2014)	415,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE G- LONG-TERM DEBT- Continued

	<u>Outstanding Amount</u>
2008 special obligation notes of \$1,428,000 due in annual installments of \$48,000 to \$215,800 through July 1, 2020; bearing interest at rates ranging from 1.53% to 5.40% (1.48% at June 30, 2014)	1,143,000
2009 general obligation bonds of \$325,000 due in annual installments of \$5,000 to \$30,000 through July 1, 2034; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	305,000
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, 2014)	1,000,000
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% (4.43% at June 30, 2014)	1,175,000
2012 general obligation bonds of \$625,000 due in annual installments of \$70,000 to \$115,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	480,000
2012 general obligation bonds of \$395,000 due in annual installments of \$45,000 to \$70,000 through July 2, 2018; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	300,000
2013 general obligation bonds of \$2,310,000 due in annual installments of \$55,000 to \$215,000 through July 2, 2033; bearing interest at rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	2,310,000
	<u>\$ 8,959,000</u>

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2014 follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 555,000	\$ 516,950
2016	592,750	516,431
2017	756,425	473,677
2018	742,425	425,119
2019	665,800	376,696
2020-2024	2,142,600	1,496,561
2025-2029	1,789,000	847,353
2030-2034	1,515,000	312,162
2035-2039	200,000	6,750
Totals	<u>\$ 8,959,000</u>	<u>\$ 4,971,699</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE G- LONG-TERM DEBT – Continued

3. Other long-term liabilities

	Outstanding Amount
<p>Note payable to CRIM (Law No. 42) – Law No. 42 of January 26, 2000 (as amended by Law No. 146 of October 11, 2001 and Law No. 172 of August 11, 2002) was enacted to authorize the CRIM to obtain a special loan in the form of a line of credit from the Governmental Development Bank of Puerto Rico (GDB) to finance a debt the municipalities of Puerto Rico owe to CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Amounts are retained from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the CRIM. Law No.42 was amended by Law no. 146 to extend from 10 to 30 years the financing period and by Law No. 172 to extend the debt period to June 30, 2001. On November 26, 2002 the Municipality entered into the financing agreement with the CRIM for a total amount of \$476,395, bearing interest at 6.18% and due on July 1, 2032. Debt service requirements in future years are as follows:</p>	<p>\$ 378,083</p>

June 30,	Principal	Interest
2015	\$ 11,909	\$ 23,213
2016	12,657	22,464
2017	13,453	21,669
2018	14,298	20,824
2019	15,196	19,925
2020-2024	91,561	84,047
2025-2029	124,175	51,433
2030-2032	94,834	10,529
Totals	\$ 378,083	\$ 254,104

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE G- LONG-TERM DEBT – Continued

**Outstanding
Amount**

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

37,054

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 2,059	\$ 928
2016	2,059	876
2017	2,059	824
2018	2,058	773
2019	2,058	722
2020-2024	10,292	2,835
2025-2029	10,292	1,546
2030-2032	6,177	309
Totals	<u>\$ 37,054</u>	<u>\$ 8,813</u>

Compensated absences – includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality’s commitment to fund such costs from future operations. The amount is paid with unrestricted funds

1,312,832

Christmas Bonus – represents the accrued portion corresponding to fiscal year 2014 of the Christmas bonus to be paid in December 2014.

142,950

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE G- LONG-TERM DEBT – Continued

	<u>Outstanding Amount</u>								
<p>Payable to CRIM, property tax advances – represents the amount reported by CRIM of the settlement of excess of advances over actual collections of property taxes applicable to fiscal year 2014. (See related note I)</p>	18,603								
<p>Payable to PREPA – As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority (“PREPA”) should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax (“CELI”) based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For fiscal year 2012-2013 the Municipality’s annual energy charges amounts to \$1,327,795 but the CELI obligation amounted to \$199,989 The excess amount of \$1,127,806 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, 2014 the outstanding amount of \$929,491 includes the unamortized balances of \$751,870 and \$177,621 from fiscal years 2013 and 2012 respectively and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:</p>	929,491								
<table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black; padding: 2px;">June 30</th> <th style="text-align: left; border-bottom: 1px solid black; padding: 2px;">Principal</th> </tr> </thead> <tbody> <tr> <td style="padding: 2px;">2015</td> <td style="padding: 2px;">\$ 553,556</td> </tr> <tr> <td style="padding: 2px;">2016</td> <td style="padding: 2px;">375,935</td> </tr> <tr> <td style="padding: 2px;">Totals</td> <td style="padding: 2px; border-top: 1px solid black; border-bottom: 3px double black;">\$ 929,491</td> </tr> </tbody> </table>	June 30	Principal	2015	\$ 553,556	2016	375,935	Totals	\$ 929,491	
June 30	Principal								
2015	\$ 553,556								
2016	375,935								
Totals	\$ 929,491								
<p>\$690,000 line of Credit, GDB – 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 is being used to finance the construction of the “Ojo de Agua” Municipal hotel, expires twenty four months after the date of its first disbursement and will be repaid through the issuance of a revenue bond. The balance outstanding at June 30, 2014 includes accrued interest.</p>	127,467								

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE H - 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:

	Commonwealth Government Funds	Federal Grants
<u>Major fund – General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 929,491	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	71,471	-
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM)- property taxes and intergovernmental subsidy(debt service fund)	63,241	-
<u>Major fund – CDBG fund:</u>		
Office of Commissioner of Municipal Affairs – CDBG	-	125,398
<u>Major fund – P.R. Department of Transportation fund:</u>		
P.R. Department of Transportation	177,128	-
<u>Other governmental funds:</u>		
P.R. Department of Labor – Law No. 52	120,696	-
P.R. Governor's Office (GAR) – FEMA (Irene Storm)	-	38,900
P.R. Department of Family – Child Care Program	-	79,975
P.R. Department of Education – Child Care Food Program	-	490
P.R. Office of Ombudsman Administration (OAP)	-	12,659
P.R. Department of Justice – Public Order Code	39,076	-
	\$ 1,401,103	\$ 257,422

NOTE I – PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2014 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

Description	Personal Property	Real Property
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:	7.03%	9.03%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
Total percent to be paid by taxpayers:	6.83%	8.83%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE I – 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 \$18,603 resulting from the settlement of fiscal year 2013-2014 is recorded as other long-term debt in the government-wide financial statements since it will not be paid with current available financial resources.

NOTE J – MUNICIPAL LICENSE TAXES

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

During the fiscal year ended June 30, 2014, 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 \$384,939 is recorded as unearned revenues.

NOTE K – SALES AND USE TAXES

On July 4, 2006 the Commonwealth Legislature approved Act No. 117 ("Act 117") which amended 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 authorized 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
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE K – 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 (except certain Municipalities as the Municipality of Rincon that delegated the 1% collection to the Puerto Rico Department of Treasury "PRDT") and the remaining .5% of the 1.5% is collected by the PRDT.

The .5% of the 1.5% amount collected by the PRDT 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% 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% deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- c. .1% of the .5% 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.

Act No. 40 of June 30, 2013, as amended, reduced the municipal sales and use tax from 1.5% to 1% and increased the Commonwealth sales and use tax from 5.5% to 6% effective February 1, 2014. In addition, 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 Act No. 18 and 19. Those Act's provides 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.

1. Act No. 18 of January 24, 2014

The purpose of this Act was 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE K – SALES AND USE TAXES - Continued

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

- a. .2% deposited in a Municipal Development Fund to be distributed to the municipalities,
- b. .2% deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- c. .1% deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

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.

As of June 30, 2014 the Municipality recorded as revenue \$1,040,601 in the general fund (of which \$400,555 corresponds to the 1% imposition and \$640,046 corresponds to the Municipal Development Fund) and \$330,016 in the debt service fund corresponding to the Municipal Redemption Fund. A total of \$126,037 of 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%); \$94,838 represents the amount of "Municipal Redemption Fund" collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30.

After July 1, 2014 the 6% corresponding to the Commonwealth's sales and use tax will still 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:

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

- a. .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,

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE K – SALES AND USE TAXES - Continued

- b. .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),
- c. .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.

The Act provides for cash advances to the Municipalities two times a year (not later than the 10th day of July and January of each year) in order to maintain its cash flow.

2. Act No. 19 of January 24, 2014

The purpose of this Act was to create the “Municipal Finance Corporation” (“COFIM”) 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 was effective on February 1, 2014.

After July 1, 2014 the 1% corresponding to the municipalities’ sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM’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 COFIM’s sinking fund (.7% of the 1% of the municipal sales and use tax or the “Municipal Transfer”) 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 Municipal Transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM’s sinking fund.

If at any moment the required deposits to the COFIM’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.

The Act provides for monthly cash advances to the Municipalities (except for the Municipalities that receive cash advances under Act No. 18) within the first ten days of each month in order to maintain its cash flow until the Municipal Transfer is done. If the cash advances exceeds the amount corresponding to the Municipal Transfer (Act No. 19) or exceeds the amount corresponding to Act No. 18 the excess will be deducted on a prorata basis from the next fiscal year cash advances, amount of Municipal Transfer or amount corresponding to Act No. 18.

Act 19 was started to be implemented as a pilot project on August 1, 2014 by the Municipality of Rincon and other fifteen no-tax collecting municipalities since they delegate the 1% sales and use tax collection to the PRDT since previous years. Starting December 1, 2014 other sixteen municipalities that were previously tax collectors but decided to become no-tax collecting municipalities were added to COFIM. Merchants will render their tax return and payment through COFIM’s web site or through a bank institution. The municipalities that decided to remain as certified tax collectors will implement the Act starting on January 1, 2015. Certified collecting municipalities that meet certain requirements may accept filings and payments through their Municipal Collections Officer. This information will be transmitted on a daily basis to the COFIM data base.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE L – INTERGOVERNMENTAL REVENUES AND FEES, FINES AND CHARGES FOR SERVICES - GENERAL FUND

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

	Amount
Amount of municipal subsidies and equalization fund sent by CRIM	\$ 4,588,735
Reimbursement from Commonwealth Government of Christmas Bonus expenditure	124,978
	\$ 4,713,713

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

	Amount
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	\$ 2,151,852
P.R. Department of Education – transportation services to students	464,364
Construction excise tax	189,195
Rental income	77,042
Licenses and permits	10,200
Fines	5,953
Other	1,875
	\$ 2,900,481

NOTE M – RETIREMENT PLAN

1. Plan description

Previously to July 1, 2013 regular employees of the Municipality contributed 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 covered 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 operated under *Act 447, approved on May 15, 1951* 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. *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. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan. There was a pool of pension assets 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE M – RETIREMENT PLAN - Continued

On April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, 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. Act No.3 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 defined contribution hybrid plan (“New Hybrid Plan”). Contributions will be maintained by each participant in individual accounts.

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 Hybrid 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. 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. New participants under the New Hybrid Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees’ contributions plus a return on investment). The New Hybrid Plan eliminates the possibility of accruing a merit pension (payable once the participant has achieved 30 years of creditable service) after June 30, 2013.

Act No. 3 establish the retirement age of Act 447 regular employees at 61 years, Act 447 high risk employees (state and municipal police, firefighters and custody officials) at 55 years, Act 305 (System 2000) regular employees at 65 years; high risk employees remains the same, at 55 years. Act 1 employees remain the same (65 years for regular employees and 55 for high risk employees). For new employees under the New Hybrid Plan retirement age will be 67 for regular employees and 58 for high risk employees.

Furthermore, Act No. 3 eliminates Special Law benefits to future retirees; reduce the Christmas bonus to \$200 and eliminate the summer bonus of \$100 to current retirees. There is no change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 to current retirees. Employers will contribute \$2,000 per retiree and future retiree (originally under Act 447 and Act 1) to help finance Special benefits; the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees. Given these changes to Special Laws, the minimum monthly pension for current retirees was increased to \$500.

Act No. 3 eliminates disability benefits and requires a mandatory disability insurance policy.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS’s actuaries.

2. Funding policy

The Act No. 3 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. All participants are required to contribute 10% of gross salary. Participants under the coordinated plan as of June 30, 2013 (benefits coordinated with social security benefits) are required to contribute 7% of gross salary up to \$6,600 plus 10% of gross salary in excess of \$6,600 for fiscal year 2013-2014; 8.5% of gross salary up to \$6,600 plus 10% of gross Salary in excess of \$6,600 for fiscal year 2014-2015 and 10% of gross salary effective July 1, 2015.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE M – RETIREMENT PLAN - Continued

The Municipality contributed 12.275% of gross salary for fiscal year 2013-2014. The Act requires an additional 1% annually for each of the next two fiscal years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. As stated in the Act the increase applicable to the municipalities for fiscal year 2013-2014 was financed through the Commonwealth's budget appropriations. 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>	<u>Law No. 3</u>
2014	\$ -	\$ -	\$ 259,956
2013	\$ 83,054	\$ 189,590	\$ -
2012	\$ 95,547	\$ 208,309	\$ -

Questions concerning any of the information provided in this disclosure or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement Systems Administration, 437 Ponce de León Avenue, Hato Rey, Puerto Rico 00918.

NOTE N – POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note M, as of June 30, 2014 the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of the Special Laws issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year 2014, costs related to these post employment benefits amounted to \$115,310. These benefits are recorded as expenditures in the general fund.

NOTE O – 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 \$26,976. 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, 2014 the Municipality has commitments of \$1,160,731 for design, construction, improvements or renovation of certain municipal facilities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE O – COMMITMENTS - Continued

3. Encumbrances

The Municipality has encumbrances outstanding which represent the estimated amount of expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. Outstanding encumbrances as of June 30, 2014 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	\$ 12,704
Sports, culture and recreation	500
Public safety	143
General government and other purposes	47,968
	\$ 61,315

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 P – CONTINGENCIES

1. Federal and Commonwealth Grants

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

2. Litigations

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that would not be covered by insurance. However, it is the opinion of the Municipality and the legal counsel that based on their experience, such actions and the potential liabilities will not impair the Municipality's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
Taxes:				
Property taxes	\$ 1,872,747	\$ 1,872,747	\$ 1,872,747	\$ -
Municipal license taxes	505,000	505,000	583,172	78,172
Sales and use taxes	1,025,000	1,025,000	944,186	(80,814)
Intergovernmental	4,057,918	4,057,918	4,044,395	(13,523)
Fees, fines and charges for services	1,642,605	1,567,605	2,061,514	493,909
Interest	50,000	50,000	119,797	69,797
Other	46,730	121,730	89,150	(32,580)
Total revenues	<u>9,200,000</u>	<u>9,200,000</u>	<u>9,714,961</u>	<u>514,961</u>
<u>EXPENDITURES:</u>				
Current:				
General government	4,370,291	4,156,985	4,387,722	(230,737)
Public works and sanitation	2,687,943	2,554,159	2,523,497	30,662
Public safety	891,388	834,933	831,971	2,962
Culture and recreation	544,318	521,506	513,844	7,662
Health	339,565	320,565	320,367	198
Welfare and community development	315,620	266,977	263,244	3,733
Total expenditures	<u>9,149,125</u>	<u>8,655,125</u>	<u>8,840,645</u>	<u>(185,520)</u>
Excess of revenues over expenditures	50,875	544,875	874,316	329,441
<u>Other financing uses:</u>				
Transfers out	(50,875)	(544,875)	(544,127)	748
Total other financing uses	<u>(50,875)</u>	<u>(544,875)</u>	<u>(544,127)</u>	<u>748</u>
Excess of revenues over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 330,189</u>	<u>\$ 330,189</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
JUNE 30, 2014

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
MUNICIPALITY OF RINCON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
June 30, 2014**

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	\$ 330,189
Budget to GAAP differences:	
Perspective differences:	
Non-budgeted funds recorded as revenues for financial reporting purposes:	61,930
Non-budgeted funds recorded as expenditures for financial reporting:	(372,826)
Non-budgeted transfers in:	1,374,072
Non-budgeted transfers out:	(50,000)
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis:	1,412,145
Revenues recorded in budgetary basis purposes but not in financial reporting:	(42,222)
Expenditures recorded for financial reporting purposes but not in budgetary basis:	(1,391,186)
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	33,790
Prior year encumbrances recorded as expenditures for financial reporting purposes:	(27,237)
Net change in fund balance (GAAP basis):	<u>\$ 1,328,655</u>

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, 2014**

		14,871	
Line Item No.	Description	Housing Choice Vouchers	
Balance Sheet			
111	Cash - unrestricted	\$	15,249
113	Cash - other restricted	\$	5,378
100	Total cash	\$	20,627
122	Accounts receivable - HUD other projects	\$	196
120	Total receivables, net of allowance for doubtful accounts	\$	196
150	Total Current Assets	\$	20,823
164	Furniture, equipment and machinery - administration	\$	2,009
166	Accumulated depreciation	\$	(1,808)
160	Total capital assets, net of accumulated depreciation	\$	201
180	Total Non-current Assets	\$	201
190	Total Assets	\$	21,024
200	Deferred Outflow of Resources	\$	-
290	Total Assets and Deferred Outflow of Resources	\$	21,024
331 - 030	Accounts payable - HUD PHA programs - Other	\$	5,574
310	Total Current Liabilities	\$	5,574
300	Total Liabilities	\$	5,574
400	Deferred Inflow of Resources	\$	-
508.4	Net Investment in Capital Assets	\$	201
511.4	Restricted Net Position	\$	-
512.4	Unrestricted Net Position	\$	15,249
513	Total Equity/Net Position	\$	15,450
600	Total Liabilities and Equity/Net Position	\$	21,024
Income Statement			
70600-010	Housing assistance payments	\$	128,255
70600-020	Ongoing administrative fees earned	\$	20,385
70600-070	Admin fee calculation description	\$	-
70600	HUD PHA operating grants	\$	148,640
71500	Other revenue	\$	2,338
700	Total Revenue	\$	150,978
91100	Administrative salaries	\$	12,452
91500	Employee benefit contributions- administrative	\$	5,609
91000	Total Operating - Administrative	\$	18,061
96200	Other general expenses	\$	491
96000	Total Other General Expenses	\$	491
96900	Total Operating Expenses	\$	18,552
97000	Excess Revenue Over Operating Expenses	\$	132,426
97300-050	All Other	\$	120,792
97300-041	HAP Portability-out	\$	7,463
97300	Housing assistance payments	\$	128,255
97350	HAP Portability-in	\$	1,899
90000	Total Expenses	\$	148,706
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$	2,272

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2014**

Line Item No.	Description	14.871
		Housing Choice Vouchers
Balance Sheet		
11030	Beginning equity	\$ 13,178
11040-010	Prior period adjustments and correction of errors - Editable	\$ -
11040	Prior period adjustments, equity transfers, and correction of errors	\$ -
11170-001	Administrative Fee Equity - Beginning Balance	\$ 13,178
11170-010	Administrative Fee Revenue	\$ 20,385
11170-050	Other Revenue	\$ 2,338
11170-051	Comment For Other Revenue	This amount corresponds to the administrative fees earned on the portability-in vouchers administered by the Municipality (\$439) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 13-14 (\$1,899)
11170-060	Total Admin Fee Revenues	\$ 22,723
11170-080	Total Operating Expenses	\$ 18,552
11170-095	Housing Assistance Portability In	\$ 1,899
11170-110	Total Expenses	\$ 20,451
11170-002	Net Administrative Fee	\$ 2,272
11170-003	Administrative Fee Equity - Ending Balance	\$ 15,450
11170-005	Pre-2004 Administrative Fee Reserves	\$ -
11170-006	Post-2003 Administrative Fee Reserves	\$ 13,799
11170	Administrative Fee Equity	\$ 15,450
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ -
11180-010	Housing Assistance Payments Revenues	\$ 128,255
11180-030	Total HAP Revenues	\$ 128,255
11180-080	Housing Assistance Payments	\$ 128,255
11180-100	Total Housing Assistance Payments Expenses	\$ 128,255
11180-002	Net Housing Assistance Payments	\$ -
11180-003	Housing Assistance Payments Equity - Ending Balance	\$ -
11180	Housing Assistance Payments Equity	\$ -
11190-210	Total ACC HCV Units	408
11190-220	Unfunded Units	-
11190-230	Other Adjustments	-
11190	Unit Months Available	408
11210	Unit Months Leased	408

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
June 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying financial data schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It is prepared using the accrual basis of accounting, as required by REAC regulations.

SINGLE AUDIT SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Direct programs:			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 8,773
Rural Business Enterprise Grant	10.769	N/A	31,673
Passed-through program from:			
<u>P.R. Department of Education</u>			
Child and Adult Care Food Program	10.558	CCC-110	19,189
Subtotal U.S. Department of Agriculture			<u>59,635</u>
U.S. Department of Housing and Urban Development			
Direct programs:			
Section 8 Housing Choice Vouchers Program	14.871	N/A	148,640
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	750,234
Subtotal U.S. Department of Housing and Urban Development			<u>898,874</u>
U.S. Department of Transportation			
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-X026-60	327,326
U.S. Department of Health and Human Services			
Passed-through programs from:			
<u>P. R. Office of the Ombudsman for the Elderly:</u>			
Special Programs for the Aging_Tittle III Part D_ Disease Prevention and Health Promotion Services	93.043	130430R2, 140213R2, 140017R2	3,773
Aging Cluster:			
Special Programs for the Aging_Tittle III Part B_ Grants for Supportive Services and Senior Centers	93.044	130429R2, 140263R2	25,504
Special Programs for the Aging_Tittle III, Part C_Nutrition Services	93.045	130430R2, 140213R2	96,052
Nutrition Services Incentive Program	93.053	130430R2, 140213R2	15,247
Total Aging Cluster:			<u>136,803</u>
<u>P.R. Department of Family - Families and Children Administration:</u>			
Child Care and Development Block Grant	93.575	241-2013-000180, 241-2014-000041	79,565
Subtotal U.S. Department of Health and Human Services:			<u>220,141</u>
Total Expenditures of Federal Awards			<u>\$ 1,505,976</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, 2014**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

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

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

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

Description	USHUD - Community Development Block Grant Program Fund	PR Department of Transportation (DTOP) Fund	Other Governmental Funds
10.760	\$ -	\$ -	\$ 8,773
14.228	750,234	-	-
10.769	-	-	31,673
10.558	-	-	19,189
14.871	-	-	148,640
ARRA – 20.500	-	327,326	-
93.043	-	-	3,773
93.044	-	-	25,504
93.045	-	-	96,052
93.053	-	-	15,247
93.575	-	-	79,565

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2014**

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

<u>Description</u>	<u>USHUD - Community Development Block Grant Program Fund</u>	<u>PR Department of Transportation (DTOP) Fund</u>	<u>Other Governmental Funds</u>
Total federal awards expenditures:	750,234	327,326	428,416
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program:	-	-	511
Non-federal awards expenditures:	-	36,050	464,682
Total expenditures, fund statements:	<u>\$ 750,234</u>	<u>\$ 363,376</u>	<u>\$ 893,609</u>

**INDEPENDENT AUDITOR'S 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**

Honorable Mayor and Members of the
Municipal Assembly
Rincón, 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 Rincón, Puerto Rico as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Municipality of Rincón, Puerto Rico's basic financial statements, and have issued our report thereon dated December 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Municipality of Rincón, Puerto Rico'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 Municipality of Rincón, Puerto Rico's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipality of Rincón, Puerto Rico'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.

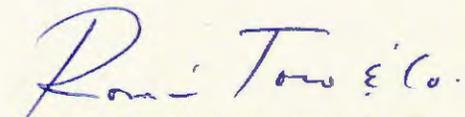
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 Municipality of Rincón, Puerto Rico'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.


ROMAN TORO & CO., CPA, C.S.P.
LICENSE # 35 - IN FORCE

Yauco, Puerto Rico
December 30, 2014

Stamp #E115264 was affixed to
the original report

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

Honorable Mayor and Members of the
Municipal Assembly
Rincón, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited Municipality of Rincón, Puerto Rico's 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 Municipality of Rincón, Puerto Rico's major federal programs for the year ended June 30, 2014. Municipality of Rincón, Puerto Rico'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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Municipality of Rincón, Puerto Rico'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 Municipality of Rincón, Puerto Rico'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 Municipality of Rincón, Puerto Rico's compliance.

Opinion on Each Major Federal Program

In our opinion, Municipality of Rincón, Puerto Rico, 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, 2014.

Report on Internal Control Over Compliance

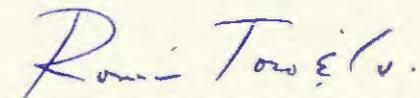
Management of Municipality of Rincón, Puerto Rico, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality of Rincón, Puerto Rico's 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 Municipality of Rincón, Puerto Rico'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.

Purpose of this Report

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.


ROMAN TORO & CO., CPA, C.S.P.
LICENSE # 35 - IN FORCE

Yauco, Puerto Rico
December 30, 2014

Stamp #115265 was affixed to
the original report



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- Type of auditor's report issued: Unmodified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion
- Internal control over financial reporting:
- Significant control deficiency identified? Yes None reported
 - Material weakness (es) identified? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

- Internal control over major programs:
- Significant control deficiency identified? Yes None reported
 - Material weakness (es) identified? Yes No
- Type of auditor's report issued on compliance for Major Programs: Unmodified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion
- Any audit finding disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants/ Entitlement(CDBG)
20.500	ARRA – Federal Transit Capital Investment Grants

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

END OF SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RINCON, PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
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(1) Prior Audit Findings, fully corrected or not noted during our audit:

None

(2) Prior Audit Findings, not corrected or partially corrected:

None.

(3) Corrective action taken is significantly different from corrective action previously reported:

None.

(4) Prior Audit Findings, are no longer valid:

None.

END OF SCHEDULE



**ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL DE RINCÓN
DEPARTAMENTO DE FINANZAS**



January 16, 2015

Oficina del Comisionado de
Asuntos Municipales
Attn. Lic Carlos M. Santini Rodríguez
Commissioner
PO Box 70167
San Juan, Puerto Rico 00936-8167

Dear Mr. Santini:

Accompanied herewith please find (1) copy of our Financial Statements and Report of Independent Certified Public Accountants and additional reports required under the OMB Circular A-133. Thereon of the Municipality of Rincon for the year ended June 30, 2014.

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

Cordially yours,

Francisco J. Mercado Silva, CPA
Finance Director

Personal Property Tax Return and Extensions filing Process

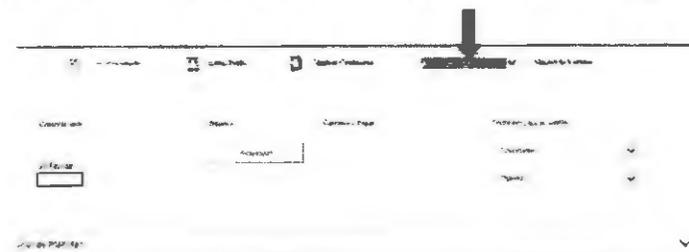
Step #1:

Proceed to the CRIM's website www.crimpr.net and please enter your username and password and select desired language.



Step #2:

Dashboard for managing your account as a taxpayer: Click on “Mi Cuenta” to start the electronic filing. If you want to return to the Dashboard, you must choose “Mis Propiedades”.



Step #3:

Go to “Gestiones para su cuenta” in order to choose the return you will file.



Click on “Gestiones para su cuenta” and choose the return you will file.

Step #4:

General Information

Rendición de Planilla Mueble (3 Millones o menos) / Personal Property Tax Return (3 Millions or less)

Numero de Licencia de CPA CPA License Number	Numero de estampilla del Colegio de CPA de Puerto Rico Number of Stamp of CPA Association of Puerto Rico
Calle y/o Dirección Address (Street) \$1-EE-110	Año de Rendición Tax Year 2014
Clase de contribuyente Type of Taxpayer Seleccionar	Municipio Municipality Seleccionar
Categoría Código NAICS NAICS Code Category Seleccionar	Código NAICS NAICS Code Seleccionar

Please enter the CPA license number **0217** and the stamp number that will appear at the bottom of Page 4 of the return.

Step #5:

Personal Property Tax Return with taxable amount in one municipality. Complete the required fields with the information in Schedule A, B and C of the return.

Step #6:

Personal Property Tax Return with taxable amounts in multiple municipalities. Choose the box “**Valoración en Múltiples Municipios**” and complete the required fields with the information in Form AS-29.1.

Diagnose AS-29.1 / Breakdown AS-29.1

Municipality: Data

Municipality Exempt Valuation: Data

Municipality Tax: Data

Municipality Type: Data

Valuation: Total Valuation, Exonerated Valuation, Exempt Valuation, Valuation subject to tax, Valuation subject to tax / Exonerated Exempt Valuation

Municipio	Valoración Total	Valoración Exonerada	Valoración Exenta	Valoración Sujeta a Contribución	Tipo Contributivo	Contribución
Carolina	\$100,000.00	\$0.00	\$0.00	\$100,000.00	8.33	\$8,330.00
Guayama	\$100,000.00	\$0.00	\$0,000.00	\$100,000.00	8.33	\$833.00

Choose Municipality

Step #7:

Once the return or extension is completed, click on “**Acepto los Términos y Condiciones aquí descritos**” and press “**Continuar**”.

Acepto los Términos y Condiciones aquí descritos.

Declaro que la información que precede es cierta y completa y asumo la penalidad legal que conlleva una declaración falsa.

Guardar

Continuar

Step #8:

Upload the return in PDF form with attachments and Audited Financial Statements, as applicable. Also, if any exemption is granted, copy of the Tax Grant must be uploaded in a separate PDF form. Then, press “**Continuar**”.

PLEASE NOTE THAT FOR EXTENSION PURPOSES NO UPLOAD IS REQUIRED.

Formulario Documentos Proceso de Pago

AS-29 PLANILLA MUEBLE Y TODOS SUS ANEXOS

EVIDENCIA DEL DECRETO

Upload the return

Upload the exemption grant (if applicable).

**ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL DE RINCÓN
DEPARTAMENTO DE FINANZAS**



4 de marzo de 2015

Eunice Sosa Arvelo
Comisionada Auxiliar
Area de Asesoramiento, Reglamentación e
Intervención Fiscal
Oficina del Comisionado de Asuntos Municipales
PO Box 70167
San Juan, PR 00936-8167

Estimada señora Sosa Arvelo:

Reciba un cordial saludo desde Rincón, "Ciudad de los Bellos Atardeceres y Capital de Surfing", muy en especial de nuestro Alcalde, Hon. Carlos D. López Bonilla.

En relación a su comunicación fechada el 10 de febrero de 2015, estamos acompañando debidamente completada la tabla que hace formar parte de la Carta Circular 2013-20 para el "Single Audit" del Año Fiscal 2014.

Sin otro particular al cual referirme.

Cordialmente,

Una firma manuscrita en tinta azul que parece decir "Francisco J. Mercado".

CPA Francisco J. Mercado Silva
Director de Finanzas

**Oficina del Comisionado
Registro de Señalamientos de Auditorías Externas
OMB-133**

Municipio: Rincón

Municipio	Fecha de Radicacion del Single Audit al Clearinghouse	Fecha de Entrega del Informe a la OCAM	Fecha Revisión de informe por parte de OCAM	Tiene Señalamientos (SI/NO)	Fecha de Envio de carta solicitando PAC	Fecha en que se espera completar el PAC	Fecha de Cierre del Señalamiento	Fecha de Cierre de la Auditoría
	1/15/15	1/21/15	2/10/15	NO	N/A	N/A	N/A	6/30/14

Subject: Single Audit Submission Completed - MUNICIPALITY OF RINCON (2014), Report ID: 627120
From: GOVS FAC IDES (govs.fac.ides@census.gov)
To: FJMERCADO@RINCON.GOV.PR; CPAFJM@YAHOO.COM;
CPAMARCOSMELENDEZ@CPAROMANTORO.COM;
Date: Monday, February 2, 2015 9:57 AM

2/2/2015

MUNICIPALITY OF RINCON
REPORT ID: 627120
FISCAL YEAR END DATE: 6/30/2014

The Federal Audit Clearinghouse (FAC) processed the Single Audit report for the above referenced organization to completion. Please retain this e-mail for your records.

Sincerely,
Federal Audit Clearinghouse
govs.fac.ides@census.gov

Subject: Single Audit Submission Received for MUNICIPALITY OF RINCON, PUERTO RICO - Report ID: 627120
From: gov.s.fac.ides@census.gov (gov.s.fac.ides@census.gov)
To: CPAFJM@YAHOO.COM; CPAMARCOSMELENDEZ@CPAROMANTORO.COM;
Date: Friday, January 30, 2015 11:29 AM

15-JAN-30

MUNICIPALITY OF RINCON, PUERTO RICO
REPORT ID: 627120
FISCAL YEAR END DATE: 06/30/2014

Dear FRANCISCO MERCADO SILVA:

The Single Audit report for your organization was submitted to the Federal Audit Clearinghouse (FAC).

The FAC will now process your submission and send you an e-mail once this is completed. If there are no errors, you will receive an email to let you know that your submission is complete. If the submission has errors, you will receive an email listing the problems and the steps needed to correct the errors.

Sincerely,
Federal Audit Clearinghouse
gov.s.fac@ census.gov
(800) 253-0696