

Río Grande



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF RÍO GRANDE

**BASIC FINANCIAL STATEMENTS
WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT**

YEAR ENDED JUNE 30, 2009

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE
BASIC FINANCIAL STATEMENTS
WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT
YEAR ENDED JUNE 30, 2009

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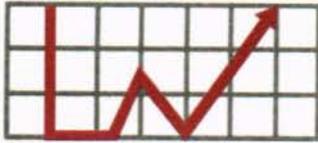
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

BASIC FINANCIAL STATEMENTS
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YEAR ENDED JUNE 30, 2009

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Legislature
Municipality of Río Grande
Río Grande, Puerto Rico**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Río Grande, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2009, which collectively comprise the **Municipality's** basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

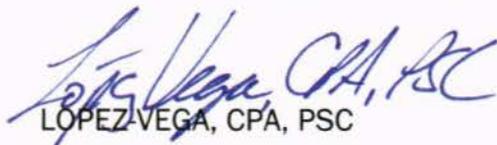
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Río Grande, Puerto Rico**, as of June 30, 2009, and the respective changes in financial position, therefore for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages **3** through **12** and the Budgetary Comparison Schedule-General Fund on page **46** are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Río Grande's** basic financial statements. The accompanying 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 is not a required part of the basic financial statements of the **Municipality of Río Grande**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 18, 2009

Stamp No. 2407038 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2009

This discussion and analysis of the **Municipality of Rio Grande** (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2009. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2008. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provides for an evaluation of its financial condition as of the end of fiscal year 2008-2009 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2009 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

1. Total assets of the Municipality amounted to \$75,522,587 which represents an increase of 17% compared to prior fiscal year.
2. At the end of fiscal year 2009, total liabilities amounted to \$32,442,647. Out of said amount, \$26,272,642 corresponded to long-term liabilities of which \$20,612,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.
3. Total net assets of the Municipality amounted to \$43,079,940 which represents an increase of 15% compared to prior fiscal year, as restated.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$32,547,180, derived from the following sources: \$2,413,787 from charges for services; \$1,626,134 from operating grants and contributions; \$3,497,095 from capital grants and contributions obtained from other sources, and \$25,010,164 from general revenues available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL HIGHLIGHTS (CONTINUED)

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$26,994,944.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$5,552,236.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$13,204,884.
8. In the fund financial statements, the governmental activities revenue increase \$1,935,332 (or 6%), however, governmental activities expenditures decrease \$510,975 (or 2%).
9. As the end of the current fiscal year, the Municipality's general fund balance amounted to \$410,429 compared to a fund balance of \$31,030 in the prior fiscal year.
10. The actual General Fund budgetary activities resulted in an unfavorable balance of \$1,836,328.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2009. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Assets reflects information of the Municipality as a whole on a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

GOVERNMENT – WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

FUND FINANCIAL STATEMENTS

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

FUND FINANCIAL STATEMENTS (CONTINUED)

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Statement of Net Assets serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Rio Grande**, primary government assets exceeded total liabilities by \$43,079,940 at the end of 2009, as compared with \$37,527,704 as restated which reflect an increase of \$5,552,236 over previous fiscal year. The following condensed Statement of Net Assets of the Primary Government shows on a

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

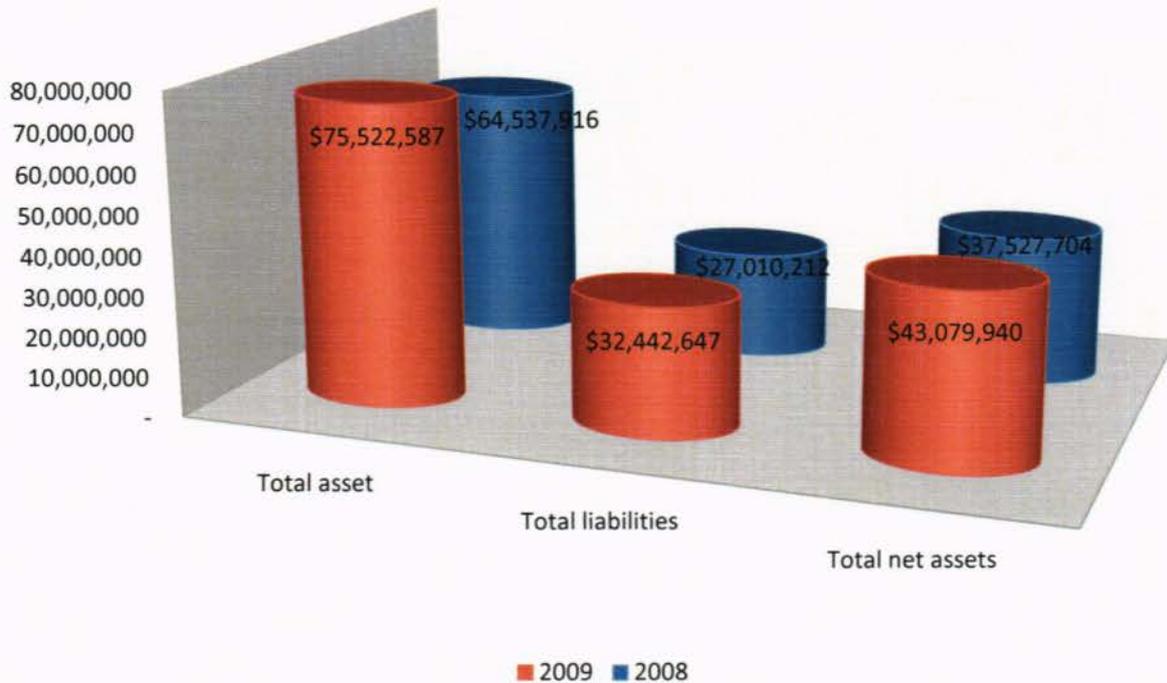
MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

comparative basis the most important components of the \$5,552,236 increase reflected in the Net Assets figure.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net Assets	2009	2008	Change	%
Current and other assets	\$ 17,937,174	\$12,602,485	\$5,334,689	42%
Capital assets	57,585,413	51,935,431	5,649,982	11%
Total assets	75,522,587	64,537,916	10,984,671	17%
Current and other liabilities	6,170,005	5,204,767	965,238	17%
Long-term liabilities	26,272,642	21,805,445	4,467,197	20%
Total liabilities	32,442,647	27,010,212	5,432,435	20%
Invested in capital assets, net of related debt	46,640,413	45,764,431	875,982	2%
Restricted	12,533,910	7,543,012	4,990,898	66%
Unrestricted deficit	(16,094,383)	(15,779,739)	314,644	2%
Total net assets	\$ 43,079,940	\$ 37,527,704	\$5,552,236	15%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Municipality's net assets increase by \$5,552,236. Approximately sixty one percent (61%) of the Municipality's total revenue came from taxes, while thirty percent (30%) resulted from grants and contributions, including federal aid. Charges for Services provided seven percent (7%), Interest and Investment earnings one percent (1%) and miscellaneous one percent (1%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, community development and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2009 and 2008. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

Condensed Statement of Activities	2009	2008	Change	%
Program revenues:				
Charges for services	\$ 2,413,787	\$ 2,100,832	\$ 312,955	15%
Operating grants and contributions	1,626,134	1,743,871	(117,737)	(7%)
Capital grants and contributions	3,497,095	5,293,421	(1,796,326)	(34%)
General revenues:				
Property taxes	8,617,416	8,947,798	(330,382)	(4%)
Municipal license tax	3,168,741	2,521,198	647,543	26%
Municipal sales and use tax	2,607,073	2,645,649	(38,576)	(1%)
Other local taxes	5,539,826	2,174,840	3,364,986	155%
Grants and contributions not restricted to specific programs	4,593,831	4,751,451	(157,620)	(3%)
Interest and investment earnings	181,697	411,897	(230,200)	(56%)
Miscellaneous	301,580	334,062	(32,482)	(10%)
Total revenues	<u>32,547,180</u>	<u>30,925,019</u>	<u>(1,622,161)</u>	5%
Expenses:				
General government	11,403,147	7,958,589	3,444,558	43%
Public safety	2,779,330	2,649,749	129,581	5%
Public works	4,711,304	9,393,735	(4,682,431)	(50%)
Health and welfare	5,492,036	5,223,817	268,219	5%
Culture and recreation	491,252	1,659,031	(1,167,779)	(70%)
Economic development	207,438	320,834	(113,396)	(35%)
Community development	1,204,396	1,777,254	(572,858)	(32%)
Interest on long-term debt	706,041	884,565	(178,524)	(20%)
Total expenses	<u>26,994,944</u>	<u>29,867,574</u>	<u>(2,872,630)</u>	(10%)
Change in net assets	5,552,236	1,057,445	4,494,791	425%
Net assets, beginning of year (as restated)	<u>\$37,527,704</u>	<u>\$ 36,470,259</u>	1,057,445	3%
Net assets, end of year	<u>\$ 43,079,940</u>	<u>\$ 37,527,704</u>	<u>\$ 5,552,236</u>	15%

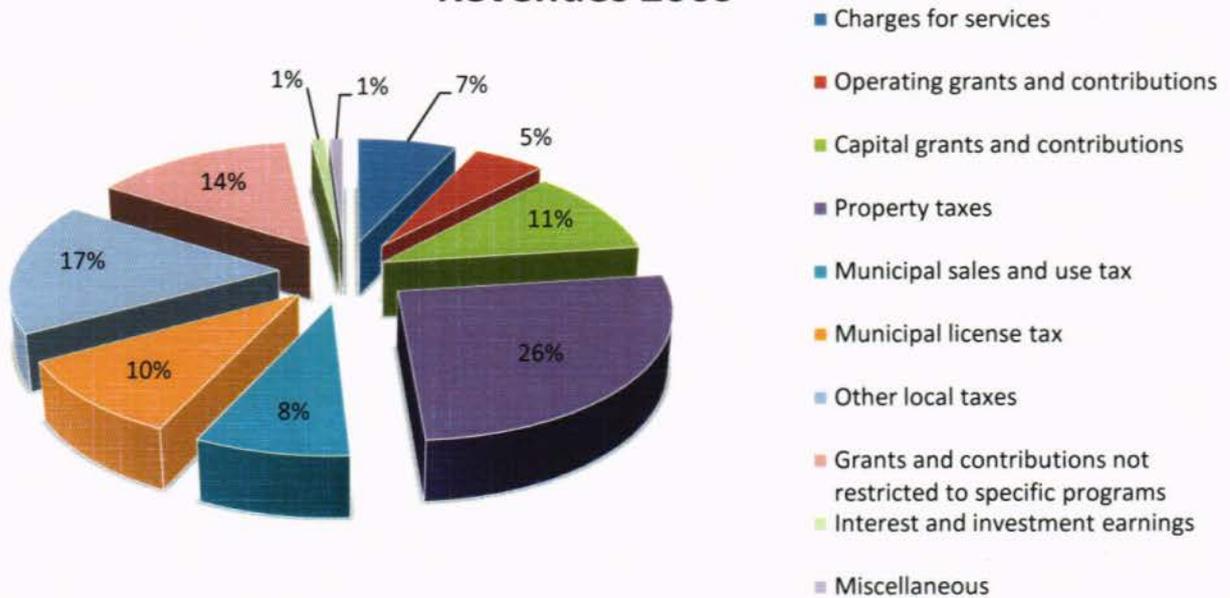
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

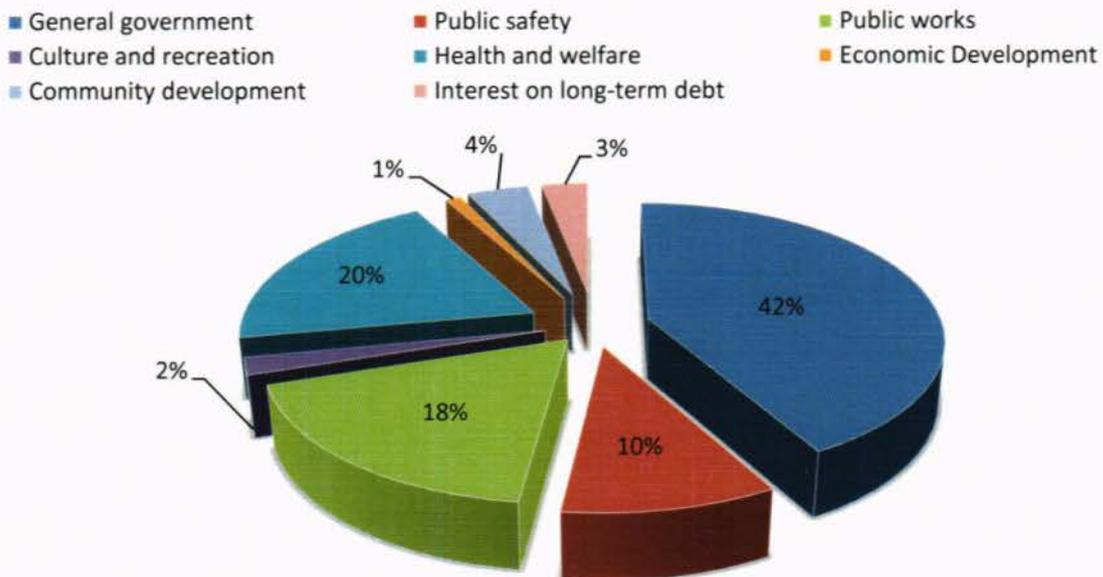
YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2009



Expenses 2009



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances amounting to \$13,204,884, which represents an increase of \$5,294,413 when compared with the prior year. Out of the indicated balance, \$13,278,420 were reserved or committed for the following purposes: (1) \$465,956 to liquidate contracts and purchase orders corresponding to prior fiscal year; 2) \$3,662,925 for debt service payments; 3) \$8,840,096 to pay for capital projects; 4) \$295,345 for other purposes, and 5) \$14,098 for long-term advances.

As of June 30, 2009, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund deficit of \$73,536.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2008-2009, the Municipal Legislature approved revisions to the operational budget which resulted in further increases in revenues and current expenditures which represented transactions detected during the normal course of business. Despite these budgets readjustments and as previously stated, the Municipal administration of **Rio Grande** was able to maintain a balanced budget as required by law as reflected in exhibit, Budgetary Comparison Schedule- General Fund attached hereto, budgetary analysis reflected a deficiency of \$1,836,328 of total operating revenues over current expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2009, amounted to \$82,807,644 which upon deduction of accumulated depreciation in the amount of \$25,222,231 produced a net book value attributable to capital assets in the amount of \$57,585,413. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately thirteen percent (13%) of net book value. Depreciation charges for the year totaled \$1,938,557.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2009, the Municipality has \$6,791,979 of proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities in the Capital Project Fund- Local, and State Grants.

Debt Administration

The Puerto Rico Legislative Assembly has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64. Such Act requires a Municipality must have sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, is sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. In the particular case of the Municipality of Rio Grande, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2009-2010.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 millions in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the **Municipality of Rio Grande** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objective of the Plan is to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

The amount assigned to the **Municipality of Rio Grande** amounts to \$1,578,947 for the first phase of the (PINI) Plan. In the first phase, the municipalities can use the funds for the following: 1) funding of essential infrastructure, and 2) those municipalities with deficit, that fall within the Governmental Development Bank (BGF) criteria for assigning those funds, can use those them to partially or fully liquidate existing debts with governmental agencies. The Municipality assigned the totally funds \$1,578,947 for infrastructure projects.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

Commonwealth of Puerto Rico
Municipality of Río Grande
Statement of Net Assets
June 30, 2009

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,666,981
Cash with fiscal agent	10,125,477
Accounts receivable:	
Municipal license tax	389,351
Construction excise tax	2,962,369
Property tax	733,532
Municipal sales and use tax	170,557
Intergovernmental	813,895
Interest	26,222
Others	43,817
Other assets	4,973
Capital assets	
Land, improvements, and construction in progress	28,776,907
Other capital assets, net of depreciation	28,808,506
Total capital assets	<u>57,585,413</u>
Total assets	<u>75,522,587</u>
Liabilities	
Accounts payable and accrued liabilities	3,473,056
Due to other governmental entities	451,722
Deferred revenues:	
Municipal license tax	1,794,881
Federal grant revenues	185,890
Interest payable	264,456
Noncurrent liabilities:	
Due within one year	1,346,968
Due in more than one year	<u>24,925,674</u>
Total liabilities	<u>32,442,647</u>
Net Assets	
Invested in capital assets, net of related debt	46,640,413
Restricted for:	
Capital projects	8,840,096
Debt service	3,398,469
Other purposes	295,345
Unrestricted (deficit)	<u>(16,094,383)</u>
Total net assets	<u>\$ 43,079,940</u>

The notes to the financial statements are an integral part of this statement.

**Commonwealth of Puerto Rico
Municipality of Río Grande
Statement of Activities
For the Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
General government	\$ 11,403,147	\$ 10,676	\$ 1,627	\$ -	\$ (11,390,844)
Public safety	2,779,330	30,195	66,315		(2,682,820)
Public works	4,711,304	96,901	164,784	2,073,134	(2,376,485)
Health and welfare	5,492,036	2,276,015	921,883		(2,294,138)
Culture and recreation	491,252		241,468	105,155	(144,629)
Economic development	207,438		230,025		22,587
Community development	1,204,396		32	1,318,806	114,442
Interest on long-term debt	706,041				(706,041)
Total governmental activities	\$ 26,994,944	\$ 2,413,787	\$ 1,626,134	\$ 3,497,095	(19,457,928)
General revenues:					
Property taxes					8,617,416
Municipal license tax					3,168,741
Municipal sales and use tax					2,607,073
Other local taxes					5,539,826
Grants and contributions not restricted to specific programs					4,593,831
Interest and investment earnings					181,697
Miscellaneous					301,580
Total general revenues					25,010,164
Change in net assets					5,552,236
Net assets - beginning, as restated					37,527,704
Net assets - ending					\$ 43,079,940

Commonwealth of Puerto Rico
Municipality of Río Grande
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Special Revenue Fund Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ -	\$ 180,545	\$ 1,967,811	\$ -	\$ 518,625	\$ 2,666,981
Cash with fiscal agent	3,911		6,791,979	3,328,721	866	10,125,477
Accounts receivable:						
Construction excise tax	2,962,369					2,962,369
Municipal license tax	389,351					389,351
Property tax	399,328			334,204		733,532
Municipal sales and use tax			170,557			170,557
Intergovernmental	18,299	483,539			312,057	813,895
Interest	26,222					26,222
Other	43,817					43,817
Advances from other funds	14,098					14,098
Due from other funds	593,747		525,539			1,119,286
Other assets	4,973					4,973
Total assets	\$ 4,456,115	\$ 664,084	\$ 9,455,886	\$ 3,662,925	\$ 831,548	\$ 19,070,558
Liabilities and Fund Balances						
Liabilities :						
Accounts payable and accrued liabilities	\$ 1,648,746	\$ 86,936	\$ 357,601	\$ -	\$ 206,514	\$ 2,299,797
Due to other governmental entities	213,533		238,189			451,722
Advances to other funds		14,098				14,098
Due to other funds	388,526	377,160	20,000		333,600	1,119,286
Deferred revenues:						
Municipal license tax	1,794,881.00					1,794,881
Federal grant revenues		185,890				185,890
Total liabilities	4,045,686	664,084	615,790	-	540,114	5,865,674
Fund balances:						
Reserved for:						
Encumbrances	465,956					465,956
Capital projects			8,840,096			8,840,096
Debt service fund				3,662,925		3,662,925
Other purposes	3,911				291,434	295,345
Long-term advances	14,098					14,098
Unreserved:						
Undesigned	(73,536)					(73,536)
Total fund balances	410,429	-	8,840,096	3,662,925	291,434	13,204,884
Total liabilities and fund balances	\$ 4,456,115	\$ 664,084	\$ 9,455,886	\$ 3,662,925	\$ 831,548	

Amounts reported for governmental activities in the statement of net assets are different because:

Accrual basis of accounting accounts receivable recognized in government-wide financial statements	(1,173,259)
Accrual basis of accounting accounts payable recognized in government-wide financial statements	(1,173,259)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	57,585,413
Long-term liabilities, including accrued interest payable, are not due and payable in the current period, and therefore, are not reported in the funds	(26,537,098)
Net assets of governmental activities	43,079,940

Commonwealth of Puerto Rico
Municipality of Río Grande
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General Fund	Special Revenue Fund Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 7,202,638	\$ -	\$ -	\$ 2,048,492	\$ -	\$ 9,251,130
Municipal license taxes	3,150,783				17,958	3,168,741
Municipal sales and use tax			2,105,799	501,274		2,607,073
Licenses, permits and other local taxes	5,550,502					5,550,502
Charges for services					2,276,015	2,276,015
Intergovernmental	4,593,831		2,157,289		481,138	7,232,258
Fines and forfeitures	30,195					30,195
Rent of property	96,901					96,901
Interest	181,697					181,697
Federal grants		2,094,979			389,823	2,484,802
Miscellaneous	212,553	3,421			85,606	301,580
Total revenues	21,019,100	2,098,400	4,263,088	2,549,766	3,250,540	33,180,894
Expenditures						
Current:						
General government	9,271,546		2,166,203		6,566	11,444,315
Public safety	2,677,490				37,118	2,714,608
Public works	5,666,559	185,784	2,519,848		1,945	8,374,136
Health and welfare	1,948,332	544,887			3,132,387	5,625,606
Culture and recreation	803,626	58,297	685,522		185,970	1,733,415
Economic development					205,500	205,500
Community development		1,318,838				1,318,838
Debt service:						
Principal				936,000		936,000
Interest				804,063		804,063
Total expenditures	20,367,553	2,107,806	5,371,573	1,740,063	3,569,486	33,156,481
Excess (deficiency) of revenues over (under) expenditures	651,547	(9,406)	(1,108,485)	809,703	(318,946)	24,413
Other financing sources (uses)						
Transfers in		9,406	157,627	88,057	132,058	387,148
Transfers out	(272,148)		(115,000)			(387,148)
Long-term debt issued			5,270,000			5,270,000
Total other financing sources (uses)	(272,148)	9,406	5,312,627	88,057	132,058	5,270,000
Net change in fund balances	379,399	-	4,204,142	897,760	(186,888)	5,294,413
Fund balance, beginning as restated	31,030		4,635,954	2,765,165	478,322	7,910,471
Fund balance, ending	\$ 410,429	\$ -	\$ 8,840,096	\$ 3,662,925	\$ 291,434	\$ 13,204,884

Handwritten signature and date: 07/15/09

**Commonwealth of Puerto Rico
Municipality of Río Grande
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$	5,294,413
Amounts reported for governmental activities in the Statement of Activities are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. The following amount represents the change in this revenue from prior year.		(633,710)
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		7,592,050
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.		(1,938,557)
Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities and Changes in Net Assets.		(3,511)
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Change in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The following amount represented the change in accrued interest from prior year.		98,018
Bonds and notes proceeds provide current financial resources to Governmental Funds, but issuing debt increase long-term liabilities in the Government-Wide statement of Net Assets. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which debt proceeds exceed the debt service principal payments.		(4,334,000)
Repayment of long term Treasury Department debt is an expenditure in Governmental Funds, but the repayment reduces long-term debt in the Government-Wide Statement of Net Assets. The following amount represent the change in Treasury Department Debt from prior year.		(138,030)
Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduces long-term property tax advance debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current year.		40,656
Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated absences were not reported as expenditures in Governmental Funds. The following amount represent the change in long-term compensated absences from prior year.		(277,007)
Long-term claims and judgements are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, claims and judgments are not reported as expenditures in Government Funds. The following amount represent the change in long-term claims and judgments from prior year.		262,454
Long-term federal cost disallowances are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, federal cost disallowances are not reported as expenditures in Government Funds. This is the amount paid in the current year.		193,066
Repayment of long term Land Information Management System (LIMS) is an expenditure in Governmental Funds, but the repayment reduces long term LIMS in the Government-Wide Statement of Net Assets. This is the amount paid in the current year.		81,984
Accounts payable change is reported in the Government-Wide Statement of Activities and Change in Net Assets but not reported as in the Governmental Funds because they do not require the use of current financial resources. This is the amount reported in the current period.		(389,271)
Long-term repayment of Retirement System Administration is reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, Retirement System debt is not reported as expenditures in Government Funds. The following amount represent the		(296,319)
Change in Net Assets of Governmental Activities	\$	5,552,236

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Río Grande** (the Municipality) was founded on the year 1840. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a sixteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality implemented the retroactive capitalization of infrastructure assets in the year ended June 30, 2006.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following is a summary of the significant accounting policies of the Municipality:

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB, as amended by the GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria the Municipality does not have component units to include within its reporting entity.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Special Revenue Fund – Federal Grants- is the accounting entity in which revenues derived from federal grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal statutes.

Capital Projects Fund – State and Local Grants – is the accounting entity in which revenues derived from local funds and state grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or state statutes.

Debt Service Fund - is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund - Is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Fund - Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Section 8 - Special Revenue Funds are used to account for revenues derived from Section 8 Housing Choice Voucher Program. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Special Revenue Fund - Federal Grants - Special Revenue Funds are used to account for revenues derived from federal grants. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Capital Projects Fund - State and Local Grants - Capital Projects Fund are used to account for financial resources used for the acquisition or construction of major capital facilities.

Debt Service Fund - Debt Service Fund are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are 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 government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, other taxes, licenses, rent, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

The preparation of the financial statements in conformity 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

- 1. Cash and cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Also, cash with fiscal agent consists of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

- 2. Receivables and payables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from 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 between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the General Fund represent mostly charge for services rendered to other governmental entities. Intergovernmental receivables in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. **Inventories**- Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.

4. **Capital assets**- Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	30 to 50 years	\$1
Infrastructure	20 to 50 years	\$1
Works of art	10 years	\$1
Vehicles	8 years	\$1
Furniture and fixtures	5 to 20 years	\$25
Machinery and equipment	5 to 20 years	\$25

5. **Long-term obligations**- The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. **Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

7. **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 the liability is incurred.

8. **Reservations of fund balance-** Reservations of fund balance in the fund financial statements represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- a. **Encumbrances-** Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- b. **Capital Projects-** Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- c. **Debt Service Fund-** Represents net assets available to finance future debt service payments.
- d. **Other Purposes-** Represents net assets available for specific use and/or legally segregated for other specific future use.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Accounting for Pension Costs- For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

10. Interfund and intra-entity transactions- The Municipality has the following types of transactions among funds:

- a. Operating Transfers- Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. Intra-Entity Transactions- Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

11. Risk financing- The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2009 amounted to \$ 222,425. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$ 457,949 for workers compensation insurance covering all municipal employees.

12. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds", and that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The details of this reconciliation are as follows:

		<u>Total Net Assets</u> <u>Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 57,585,413	
Deduct:		
Bonds payable	(5,400,000)	
Notes payable	<u>(5,545,000)</u>	\$ 46,640,413
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		8,840,096
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service	3,662,925	
Deduct:		
Interest Payable	<u>(264,456)</u>	3,398,469
<u>Net assets restricted for other purposes</u>		
General fund-fund balance restricted for other purposes	3,911	
Other governmental funds-fund balance restricted for other purposes	<u>291,434</u>	295,345
<u>Net assets unrestricted (deficit)</u>		
General fund - total fund balance:	410,429	
Deduct:		
General fund-fund balance restricted for other purposes	(3,911)	
Accrual basis accounts payable	(1,173,259)	
Bonds Payable	(9,667,000)	
Notes Payable	-	
Property Tax-Treasury Department	(242,128)	
CRIM-Law No. 146	(935,079)	
Compensated absences	(2,442,937)	
Claims and judgments	(1,516,902)	
Repayment retirement system administration	(296,319)	
LIMS repayment plan	<u>(227,277)</u>	<u>(16,094,383)</u>
Total net assets - governmental activities		<u>\$ 43,079,940</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests 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 GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2009, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial credit risk – In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of \$180,545 in the special revenue fund – federal grants, and \$1,967,811 in the capital projects fund – state and local grants were fully collateralized at June 30, 2009. In the other governmental funds there were deposits with commercial banks of \$518,625 that were fully collateralized.

The deposits at GDB of \$3,911 in the general fund, the \$6,791,979 in the capital projects fund – state and local grants, the \$3,328,721 that is restricted for debt service fund and the \$866 in the other governmental funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES

- A. **Property Tax-** Property tax receivable in the general fund represents the balance owed from the Municipal Revenue Collection Center (CRIM) at June 30, 2009, as described in Note 9. Also, part of this property tax receivable represents the amount due from the CRIM related to delinquent debts. Following is a detail of the property tax receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 399,328
Total	<u>\$ 399,328</u>

Property tax receivables in the debt service fund represent the amounts due from the CRIM related to current year advances and delinquent debts. Following is a detail of the property tax receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	\$ 334,204
Total	<u>\$ 334,204</u>

3. RECEIVABLES (CONTINUED)

- B. **Municipal sales and use tax-** On July 29, 2007, an amended to Act No. 117 of July 4, 2006, known as the "Tax Fairness Act of 2006", was enacted with the purpose of establishing a mandatory sales and use tax of 1.5% at the Municipal Level. The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by the Treasury Department. The Act provides an optional surtax on the un-process food. This surtax must be approved by the Municipal Legislature.

The Treasury Department is responsible to create the Municipal Development Fund (.2%), the Municipal Redemption Fund (.2%) and the Municipal Improvements Fund (.1%) with the remaining 0.5%.

Municipal sales and use tax receivable of \$ 170,557 in capital projects fund – state & local grants represents filed municipal sales and use tax returns that were uncollected as of June 30, 2009, net of allowance for uncollectible accounts.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (CONTINUED)

C. *Intergovernmental Receivables*- Intergovernmental receivables in the general fund represent receivables from penalties issued by the Commonwealth of Puerto Rico. Following is a detail of the intergovernmental receivables:

<u>Program Description</u>	<u>Amount</u>
Department of Treasury	<u>18,299</u>
Total	<u>\$ 18,299</u>

Intergovernmental receivables in special revenue fund – federal grants represent expenditures incurred not yet reimbursed by the federal government. Following is a detail of the intergovernmental receivables:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grant – Entitlement Grant	\$ 59,620
Community Development Block Grant – State’s Program	70,137
Child Care and Development Block Grant	200,873
Community Services Block Grant	32,783
Even Start – State Educational Agencies	83,443
Others	<u>36,683</u>
Total	<u>\$ 483,539</u>

Intergovernmental receivables in the other governmental funds represent expenditures incurred not yet reimbursed by other governmental entities. Following is a detail of the intergovernmental receivable:

<u>Governmental Entity</u>	<u>Amount</u>
Commonwealth of Puerto Rico – Treasury Department	\$ 206,250
Commonwealth of Puerto Rico – Department of Labor and Human Resources	<u>105,807</u>
Total	<u>\$ 312,057</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2009, and interfund transfers during the fiscal year ended at June 30, 2009, are summarized as follows:

a. Due from/to other fund and advances from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund – Federal Grants	Payroll and related accruals paid and not reimbursed, and other reimbursable expenditures	\$ 391,258
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed	196,587
General Fund	Capital Projects Fund – State and Local Grants	Reimbursable expenditures	20,000
Capital Projects Fund – State and Local Grants	General Fund	Payroll and related accruals paid and not reimbursed, and other reimbursable expenditures	388,526
Capital Projects Fund – State and Local Grants	Other Governmental Funds	Payroll and related accruals paid and not reimbursed	<u>137,013</u>
Total			<u>\$ 1,133,384</u>

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Capital Projects Fund – State and Local Grants	Transfer of funds for capital outlays	\$ 157,627
General Fund	Debt Service Fund	Debt retirement	88,057
General Fund	Special Revenue Fund- Federal Funds	Transfer of funds for special funds outlays	9,406
General Fund	Other Governmental Funds	Transfer of funds for special funds outlays	17,058
Capital Projects Fund – State and Local Grants	Other Governmental Funds	Transfer of funds for special funds outlays	<u>115,000</u>
Total			<u>\$ 387,148</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009
Capital asset, not being depreciated:				
Land	\$ 16,573,384	\$ -	\$ -	\$ 16,573,384
Construction in progress	<u>11,960,724</u>	<u>2,816,602</u>	<u>(2,573,803)</u>	<u>12,203,523</u>
Total capital assets not being depreciated	<u>28,534,108</u>	<u>2,816,602</u>	<u>(2,573,803)</u>	<u>28,776,907</u>
Capital assets, being depreciated:				
Buildings and building improvements	16,375,005	2,484,230		18,859,235
Infrastructure	11,364,912	2,298,796		13,663,708
Infrastructure improvements	10,530,234	2,314,019		12,844,253
Equipment	2,738,594	176,308	(1,648)	2,913,254
Furnishing	83,984	14,535	(2,845)	95,674
Works of art	4,345	-		4,345
Computers	83,348	19,083	(2,100)	100,331
Vehicles	<u>5,507,657</u>	<u>42,280</u>	<u>-</u>	<u>5,549,937</u>
Total capital assets being depreciated	<u>46,688,079</u>	<u>7,349,251</u>	<u>(6,593)</u>	<u>54,030,737</u>
Less accumulated depreciation for:				
Buildings and building improvements	(6,273,133)	(428,448)		(6,701,581)
Infrastructure	(5,628,219)	(416,223)		(6,044,442)
Infrastructure improvements	(5,234,154)	(373,800)		(5,607,954)
Equipment	(1,639,510)	(332,580)	581	(1,971,509)
Furnishing	(24,525)	(13,083)	1,002	(36,606)
Works of art	(757)	(435)		(1,192)
Computers	(44,707)	(28,136)	1,499	(71,344)
Vehicles	<u>(4,441,751)</u>	<u>(345,852)</u>	<u>-</u>	<u>(4,787,603)</u>
Total accumulated depreciation	<u>(23,286,756)</u>	<u>(1,938,557)</u>	<u>3,082</u>	<u>(25,222,231)</u>
Total capital assets being depreciated, net	<u>23,401,323</u>	<u>5,410,694</u>	<u>(3,511)</u>	<u>28,808,506</u>
Governmental activities capital assets, net	<u>\$ 51,935,431</u>	<u>\$ 8,227,296</u>	<u>\$ (2,577,314)</u>	<u>\$ 57,585,413</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	Amount
General government	\$ 172,022
Public safety	112,452
Public works	1,174,472
Health and welfare	67,555
Culture and recreation	310,491
Economic development	1,938
Education	550
Community development	<u>99,077</u>
Total depreciation expense-governmental activities	<u>\$ 1,938,557</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 are summarized as follows:

Description	General Fund	Special Revenue Fund - Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Fund	Total
Accounts payable	\$ 540,092	\$ 86,936	\$ 357,601	\$ -	\$ 206,514	\$1,191,143
Bank overdraft	637,643					637,643
Accrued liabilities	<u>471,011</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>471,011</u>
Total	<u>\$ 1,648,746</u>	<u>\$ 86,936</u>	<u>\$ 357,601</u>	<u>\$ -</u>	<u>\$ 206,514</u>	<u>\$ 2,299,797</u>

7. DUE TO OTHER GOVERNMENTAL ENTITIES

The amounts due to other governmental entities in the general fund include the following:

Governmental Entity	Amount
Puerto Rico Telephone Company	\$ 55,577
Puerto Rico Aqueduct and Sewer Authority	135,265
Puerto Rico Electric Power Authority	633
General Services Administration	825
Department of Labor and Human Resources	<u>21,233</u>
Total	<u>\$ 213,533</u>

The amounts due to other governmental entities in the capital projects fund - state & local grants include the following:

Governmental Entity	Amount
Commonwealth of Puerto Rico - Department of Treasury	<u>\$ 238,189</u>
Total	<u>\$ 238,189</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

7. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED)

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the Statement of Net Assets as non-current liabilities.

During the fiscal year 2001-2002, the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System – LIMS, contracted by the CRIM. A total of \$739,506 is to be retained in a ten years period at an interest rate of 5.95%, until November 28, 2011. At June 30, 2009, the outstanding debt balance was \$ 227,277. This amount will be presented in the government wide statement of net assets.

8. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of \$ 1,794,881 in the general fund relates to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

B. Federal Grants- The deferred revenues presented in the special revenue fund – federal grants represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Wildlife Restoration	\$ 37,178
Housing Opportunities for Persons with AIDS	53,628
Special Program for Aging – Title III, Part B	41,030
Disaster Grants – Public Assistance	8,120
Urban Development Action Grant	14,368
Child and Adult Care Food Program	24,241
Others	<u>7,325</u>
Total	\$ <u>185,890</u>

9. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the Municipal Revenue Collection Center (CRIM), a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

9. PROPERTY TAXES (CONTINUED)

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. 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. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the preliminary liquidation noting that the advances exceeded collections by \$171,014.

The Municipality entered into an agreement with the Commonwealth of Puerto Rico – Treasury Department, for the repayment of excess property tax advances. As of June 30, 2009, the related unpaid property tax advances presented in the statement of net assets amounted to \$71,114.

On January 26, 2000, Public Law No. 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years.

Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

9. PROPERTY TAXES (CONTINUED)

On June 26 1997, Public Law No. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables.

The loan is being paid by the municipalities thru a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law. As of June 30 2009, the related unpaid property tax advances presented in the Statement of Net Assets amounted to \$ 935,079.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$ 15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual tax rate is 8.58% for real property and 6.58% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

10. MUNICIPAL LICENSE TAX

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2009, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. 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 is recorded as deferred revenues.

11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 14,908,000	\$ 700,000	\$ (541,000)	\$ 15,067,000	\$ 592,000
Notes Payable	1,370,000	4,570,000	(395,000)	5,545,000	325,000
Property Tax - Department of Treasury	104,098	171,014	(32,984)	242,128	34,670
CRIM - Law No. 146	975,735	-	(40,656)	935,079	40,656
Compensated absences	2,165,930	463,975	(186,968)	2,442,937	151,000
Claims and Judgments	1,779,356	25,000	(287,454)	1,516,902	56,404
Reserve for federal cost disallowances	193,066		(193,066)	-	-
Retirement System Administration repayment plan	-	296,319		296,319	60,304
LIMS repayment plan	<u>309,261</u>	<u>-</u>	<u>(81,984)</u>	<u>227,277</u>	<u>86,934</u>
Total	<u>\$21,805,446</u>	<u>\$6,226,308</u>	<u>\$(1,759,112)</u>	<u>\$26,272,642</u>	<u>\$1,346,968</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable, is paid with unrestricted funds.
2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2009 are as follows:

<u>Type of bonds</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2009</u>
1995-Series	1/1/2019	\$ 1,187,000	4.50%	\$ 710,000
1996-Series	7/1/2020	1,045,000	4.70% to 6.63%	735,000
1996-Series	7/1/2020	1,715,000	4.70% to 6.63%	1,220,000
1998-Series	7/1/2012	355,000	4.87% to 6.71%	140,000
2002-Series	7/1/2026	5,105,000	5.00% to 8.00%	4,485,000
2002-Series	7/1/2016	1,400,000	2.70% to 4.91%	945,000
2003-Series	7/1/2027	4,746,000	5.00% to 7.25%	4,177,000
2003-Series	7/1/2027	1,175,000	5.00% to 7.50%	1,005,000
2008-Series	7/1/2023	985,000	3.93% to 7.50%	950,000
2009-Series	7/1/2033	700,000	4.75% to 7.50%	<u>700,000</u>
Total general obligation bonds				<u>\$ 15,067,000</u>

These bonds, except the 2003 Series \$1,175,000 bond, are payable from the special ad valorem property tax of 1.40% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2003 Series \$1,175,000 bond is payable with General Fund resources.

Annual debt service requirements to maturity for bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 592,000	\$ 757,468
2011	642,000	975,739
2012	684,000	933,904
2013	736,000	888,994
2014	754,000	841,614
2015-2019	4,329,000	3,393,524
2020-2024	4,067,000	1,894,689
2025-2029	3,008,000	501,652
2030-2034	<u>255,000</u>	<u>50,812</u>
Total	<u>\$ 15,067,000</u>	<u>\$ 10,238,396</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. LONG-TERM LIABILITIES (CONTINUED)

- 3. Notes Payable-** The proceeds of the issuance of notes payable were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2009</u>
2006-Series	7/1/2012	\$ 1,555,000	6.25% to 7.25%	\$ 975,000
2009-Series	7/1/2028	4,570,000	4.75% to 7.50%	<u>4,570,000</u>
Total notes payable				<u>\$ 5,545,000</u>

The Series 2006 note is payable from the special ad valorem property tax of 1.40% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The Series 2009, amounting 4,570,000, is payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes imposed by the Municipality and collected by the Puerto Rico Treasury Department.

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 325,000	\$ 249,421
2011	350,000	376,781
2012	370,000	350,387
2013	400,000	322,162
2014	140,000	302,250
2015-2019	880,000	1,329,375
2020-2024	1,265,000	930,938
2025-2029	<u>1,815,000</u>	<u>360,938</u>
Total	<u>\$ 5,545,000</u>	<u>\$ 4,222,252</u>

- 4. Compensated absences-** The government-wide statement of net assets includes \$1,319,080 of accrued sick leave benefits, and approximately \$1,123,857 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- 5. Retirement System Administration Special Laws-Payment Plan-** This amount represents the amount owed by the Municipality to the Retirement System Administration for the increase in benefits to employees as per various laws approved between 2006 and 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$ 550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total Municipality contributions during the year ended June 30, 2009 amounted to \$ 665,523. This amount represented 100% of the required contribution.

On September 24, 1999, the Act. No. 447 (of May 15, 1951) which created the Retirement System was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. PENSION PLAN (CONTINUED)

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

13. RISK MANAGEMENT

The Property Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Treasury Department of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

14. COMMITMENTS AND CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of \$ 1,516,902 for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor or grantee. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

15. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2009:

- a. GASB Statement No.51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement is effective for periods beginning after June 15, 2009.
- b. GASB Statement No.53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.
- c. GASB Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for periods beginning after June 15, 2010.
- d. GASB Concepts Statement No. 5, *Service Efforts and Accomplishments- an Amendment of GASB Concepts Statements No. 2*. This Statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB:CS-2.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

16. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue Fund – Federal Grants</u>	<u>Capital Projects Fund – State & Local Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Fund balance, beginning	\$ 31,030	\$ -	\$ 4,635,954	\$ 2,765,165	\$ 500,456	\$ 7,932,605
To correct prior year intergovernmental receivable	-	-	-	-	(22,134)	(22,134)
Fund balance, beginning as restated	<u>\$ 31,030</u>	<u>\$ -</u>	<u>\$ 4,635,954</u>	<u>\$ 2,765,165</u>	<u>\$ 478,322</u>	<u>\$ 7,910,471</u>

B. GOVERNMENTAL WIDE FINANCIAL STATEMENTS

The following restatements have been made in the governmental wide financial statements, which are reported as an adjustment to the beginning net assets:

<u>Description</u>	<u>Total</u>
Net assets, beginning	\$ 37,549,838
To correct prior year intergovernmental receivable	(22,134)
Net assets, beginning as restated	<u>\$ 37,527,704</u>

17. SUBSEQUENT EVENTS

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 millions in grants and is eligible to obtain additional funding through other competitive federal programs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

17. SUBSEQUENT EVENTS (CONTINUED)

As part of this plan, the **Municipality of Rio Grande** will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA.

On May 7, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objectives of the Plan is to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

The amount assigned to the **Municipality of Rio Grande** amounts to \$1,578,947 for the first phase of the (PINI) Plan. In the first phase, the municipalities can use the funds for the following: 1) funding of essential infrastructure, and 2) those municipalities with deficit, that fall within the Governmental Development Bank (BGF) criteria for assigning those funds, can use those them to partially or fully liquidate existing debts. The Municipality assigned \$1,578,947 for infrastructure projects.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(SEE NOTES TO BUDGETARY COMPARISON SCHEDULE)**

YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis) (See Note 1)	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 6,945,513	\$ 7,424,761	\$ 7,398,113	\$ (26,648)
Fines and forfeiture	15,000	15,000	11,899	(3,101)
Municipal license tax	2,910,000	2,910,000	2,763,098	(146,902)
Licenses, permits and other local taxes	4,000,000	4,000,000	2,577,458	(1,422,542)
Intergovernmental	4,138,296	4,138,296	4,593,831	455,535
Interest	450,000	450,000	155,475	(294,525)
Rent of property	30,000	30,000	53,084	23,084
Miscellaneous	<u>480,000</u>	<u>480,000</u>	<u>223,225</u>	<u>(256,775)</u>
Total revenues	18,968,809	19,448,057	17,776,183	(1,671,874)
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	8,114,001	8,419,771	8,815,924	(396,153)
Public safety	2,777,810	2,751,090	2,673,899	77,191
Public works	5,563,594	5,764,412	5,715,613	48,799
Health and welfare	1,706,407	1,702,207	1,599,018	103,189
Culture and recreation	709,722	713,302	808,057	(94,755)
Community Development	-	-	-	-
Operating transfer to other funds	<u>97,275</u>	<u>97,275</u>	<u>-</u>	<u>97,275</u>
Total expenditures, encumbrances and other financing uses	<u>18,968,809</u>	<u>19,448,057</u>	<u>19,612,511</u>	<u>(164,454)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)				
	\$ -	\$ -	\$ (1,836,328)	\$ (1,836,328)
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)*available for appropriation" from the budgetary comparison schedule				\$ 17,776,183
Differences-budget to GAAP:				
GAAP adjustments to revenues				<u>3,242,917</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 21,019,100</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)*total charges to appropriations" from the budgetary comparison schedule				\$ 19,612,511
Differences-budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				1,220,998
Current year encumbrances recorded as expenditures for budgetary purposes				(465,956)
Non budgeted transfer out				<u>272,148</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 20,639,701</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

**NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2009**

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with USGAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund. For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2009 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program:			
Rural Housing Preservation Grant	10.433		\$ 36,958
Pass-through the Commonwealth of Puerto Rico-Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	11,614
Total U.S. Department of Agriculture			48,572
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Community Development Block Grants/Entitlement Grants	14.218		1,316,972
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		526,678
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants - State's Program	14.228	Not Available	169,422
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan:			
Housing Opportunities for Persons with Aids	14.241	Not Available	78,205
Total U.S. Department of Housing and Urban Development			2,091,277

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2009**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF THE INTERIOR			
Direct Program:			
Wildlife Restoration	15.611		<u>58,297</u>
Total U.S. Department of the Interior			<u>58,297</u>
U.S. DEPARTMENT OF EDUCATION			
Pass-through the Commonwealth of Puerto Rico Department of Education: Even Start - State Educational Agencies	84.213	Not Available	<u>101,290</u>
Total U.S. Department of Education			<u>101,290</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Office of the Ombudsman for the Elderly: Special Program for Aging - Title III, Part B - Grant for Supporting Services and Senior Centers	93.044	Not Available	166,855
Pass-through the Commonwealth of Puerto Rico - Family Department: Child Care and Development Block Grant	93.575	Not Available	<u>146,692</u>
Total U.S. Department of Health and Human Services			<u>313,547</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Hazard Mitigation Grant Program	97.039	Not Available	<u>13,671</u>
Total U.S. Department of Homeland Security			<u>13,671</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,626,654</u>

The accompanying notes are an integral part of this schedule

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Río Grande** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund – Federal Grants and in the Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the funds financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Fund Federal Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 2,099,976	\$ 526,678	\$ 2,626,654
Non federal programs expenditures	7,830	3,042,808	3,050,638
Total expenditures in the general purpose financial Statements	\$ 2,107,806	\$ 3,569,486	\$ 5,677,292



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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- Puerto Rico Society of Certified Public Accountants

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

**To the Honorable Mayor
and the Municipal Legislature
Municipality of Río Grande
Río Grande, Puerto Rico**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Río Grande, Puerto Rico**, as of and for the year ended June 30, 2009, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 18, 2009, which was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Río Grande's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality of Río Grande's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Río Grande's** internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **Municipality of Río Grande's** ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **Municipality of Río Grande's** financial statements that is more than inconsequential will not be prevented or detected by **Municipality of Río Grande's** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by **Municipality of Río Grande's** internal control.

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 (CONTINUED)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality of Río Grande's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the **Municipality of Río Grande** in a separate letter dated December 18, 2009.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

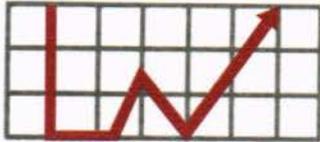
San Juan, Puerto Rico
December 18, 2009

Stamp No. 2407039 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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- Puerto Rico Society of Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**To the Honorable Mayor
and the Municipal Legislature
Municipality of Río Grande
Río Grande, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Río Grande** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The **Municipality of Río Grande's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Río Grande's** management. Our responsibility is to express an opinion on the **Municipality of Río Grande's** compliance based on our audit.

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

In our opinion, the **Municipality of Río Grande** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 (CONTINUED)**

Internal Control Over Compliance

The management of the **Municipality of Río Grande** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality of Río Grande's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Río Grande's** internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiency in internal control over compliance that we consider to be material weaknesses, as defined above.

The **Municipality of Río Grande's** response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Municipality of Río Grande's** response and, accordingly, we express no opinion on it.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 (CONTINUED)**

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Río Grande** in a separate letter dated March 19, 2010.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 19, 2010

Stamp No. 2407071 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes	None reported X
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes	None reported X

Type of auditor’s report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	No X
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Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant – Entitlement Grant
14.871	Section 8 Housing Choice Voucher

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section II - Financial Statements Findings

During our audit, we did not detect significant deficiencies, material weaknesses and instances of noncompliance related to the general purpose financial statements that are required to be reported in accordance with *Government Auditing Standards*.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Financial Statements Findings

During our audit, we did not detect significant deficiencies, material weaknesses and instances of noncompliance related to the general purpose financial statements that are required to be reported in accordance with OMB Circular A-133.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
08-01	14.871	<p><u>The auditors performed a Cash Management Test and after their procedures, they found that during the current fiscal year, the Municipality maintained an average cash balance in books of, approximately, \$338,944. Also, at June 30, 2008, the cash balance in books was \$226,741. In addition, the program maintains a due from Housing Opportunities for Persons with AIDS Program (HOPWA) for the amount of \$30,006.</u></p> <p>Corrective action was taken.</p>
07-01	14.871	<p><u>The auditors realized a Cash Management Test and after their procedures, they found that during the current fiscal year, the Municipality maintained an average cash balance in books of, approximately, \$406,350. Also, at June 30, 2007, the cash balance in book was \$446,228. In addition, the program maintains a due from Housing Opportunities for Persons with AIDS Program (HOPWA) for the amount of \$30,006.</u></p> <p>Corrective action was taken.</p>
06-04	14.871	<p><u>The auditors realized a Cash Management Test and after the procedures, they found that during the current fiscal year, the Program maintained an average cash balance in books of approximately \$293,168. Also, at June 30, 2006, the cash balance in book was \$332,362. The auditors did not identify the origin of those funds.</u></p> <p><u>In addition, the program maintains a due from Housing Opportunities for Persons with AIDS Program (HOPWA) for the amount of \$30,006. This amount relates to prior year Section 8 Housing Choice Vouchers Program financing of HOPWA activities.</u></p> <p>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.</p>