

No. 5
López-Vega, CPA, PSC



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Certified Public Accountants / Management Advisors

Rid. Grande
(61)

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, 2010

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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, 2010

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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, 2010, 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 the *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, 2010, 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.

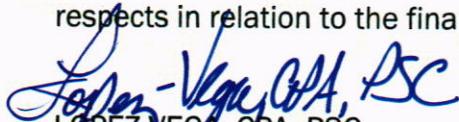
In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2011, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 should be considered in assessing the results of our audit.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 46 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 11, 2010

Stamp No. 2575463 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, 2010

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, 2010. 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, 2009. 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 2009-2010 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 2010 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 \$81,726,671 which represents an increase of 8% compared to prior fiscal year.
2. At the end of fiscal year 2010, total liabilities amounted to \$39,305,327. Out of said amount, \$32,381,150 corresponded to long-term liabilities of which \$26,895,000 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 \$42,421,344 which represents a decrease of 2% 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 \$29,116,013, derived from the following sources: \$2,286,086 from charges for services; \$3,678,017 from operating grants and contributions; \$1,901,648 from capital grants and contributions obtained from other sources, and \$21,250,262 from general revenues available.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 \$29,777,050.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to a decrease in the Net Assets figure by \$661,037.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$15,905,427.
8. In the fund financial statements, the governmental activities revenue decrease \$4,987,137 (or 24%), however, governmental activities expenditures decrease \$1,702,598 (or 8%).
9. At the end of the current fiscal year, the Municipality's general fund deficit amounted to \$(2,308,197) compared to a fund balance of \$410,429 in the prior fiscal year, as restated.
10. The actual General Fund budgetary activities resulted in a favorable balance of \$497,211.

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 2010. 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, 2010

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.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2010

FUND FINANCIAL STATEMENTS (CONTINUED)

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 \$42,421,344 at the end of 2010, as compared with \$43,082,381, as restated, which reflect a decrease of \$661,037 under previous fiscal year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$661,037 decrease reflected in the Net Assets figure.

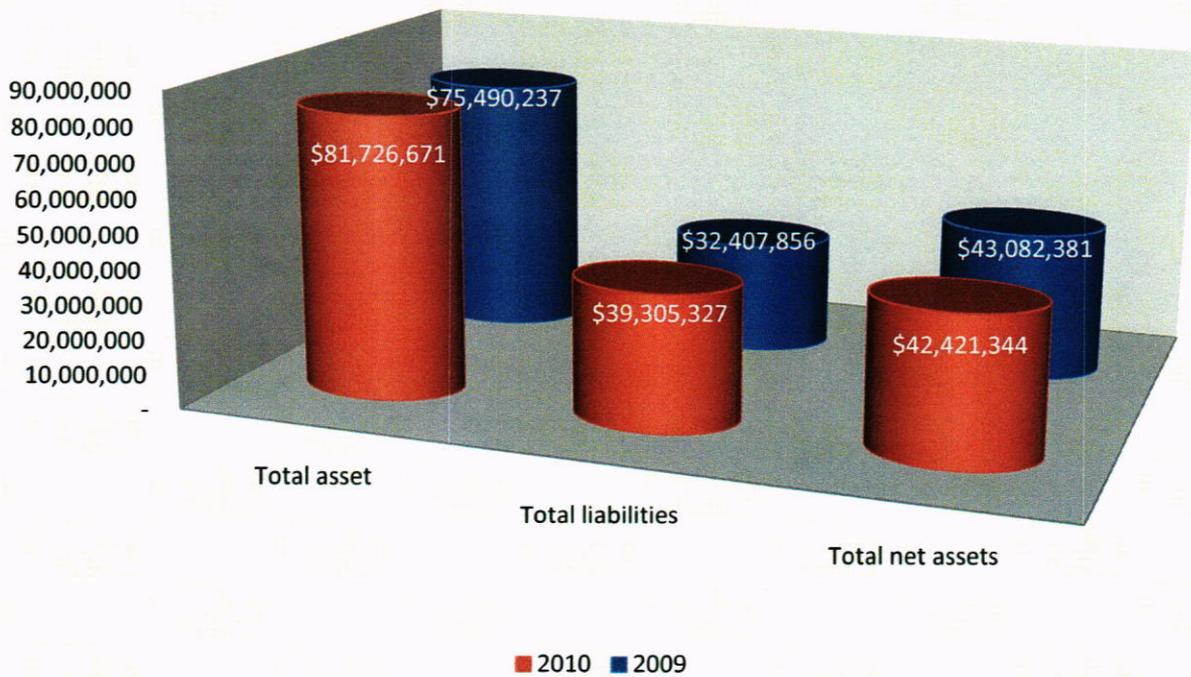
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net Assets	2010	2009	Change	%
Current and other assets	20,936,122	17,904,824	3,031,298	17%
Capital assets	60,790,549	57,585,413	3,205,136	6%
Total assets	81,726,671	75,490,237	6,236,434	8%
Current and other liabilities	6,924,177	6,135,214	788,963	13%
Long-term liabilities	32,381,150	26,272,642	6,108,508	23%
Total liabilities	39,305,327	32,407,856	6,897,471	21%
Invested in capital assets, net of related debt	43,294,549	46,640,413	(3,345,864)	(7)%
Restricted	17,874,508	12,533,910	5,340,598	43%
Unrestricted deficit	(18,747,713)	(16,091,942)	(2,655,771)	17%
Total net assets, as restated	\$ 42,421,344	\$ 43,082,381	\$ (661,037)	(2)%



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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Municipality's net assets decrease by \$661,037. Approximately fifty nine percent (59%) of the Municipality's total revenue came from taxes, while thirty one percent (31%) resulted from grants and contributions, including federal aid. Charges for Services provided eight percent (8%), 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, 2010 and 2009. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

Condensed Statement of Activities	2010	2009	Change	%
Program Revenues:				
Charges for services	\$ 2,286,086	\$ 2,413,787	\$ (127,701)	(5)%
Operating grants and contributions	3,678,017	1,593,784	2,084,233	131%
Capital grants and contributions	1,901,648	3,497,095	(1,595,447)	(46)%
General revenues:				
Property taxes	10,798,040	8,617,416	2,180,624	25%
Municipal license tax	2,638,386	3,168,741	(530,355)	(17)%
Municipal sales and use tax	2,635,013	2,607,073	27,940	1%
Other local taxes	994,043	5,539,826	(4,545,783)	(82)%
Grants and contributions not restricted to specific programs	3,435,598	4,593,831	(1,158,233)	(25)%
Interest and investment earnings	333,124	181,697	151,427	83%
Miscellaneous	416,058	301,580	114,478	38%
Total revenues	29,116,013	32,514,830	(3,398,817)	(11)%
Expenses:				
General government	8,419,573	11,403,147	(2,983,574)	(26)%
Public safety	5,535,896	2,779,330	2,756,566	99%
Public works	6,162,234	4,676,513	1,485,721	32%
Health and welfare	7,138,164	5,492,036	1,646,128	30%
Culture and recreation	939,354	491,252	448,102	91%
Economic development	291,992	207,438	84,554	41%
Community development	377,201	1,204,396	(827,195)	(69)%
Urban development	19,100	-	19,100	100%
Interest on long-term debt	893,536	706,041	187,495	27%
Total expenses	29,777,050	26,960,153	2,816,897	10%
Change in net assets	(661,037)	5,554,677	(6,215,714)	(112)%
Net assets, beginning of year, as restated	43,082,381	37,527,704	5,554,677	15%
Net assets, end of year	<u>\$ 42,421,344</u>	<u>\$ 43,082,381</u>	<u>\$ (661,037)</u>	<u>(2)%</u>

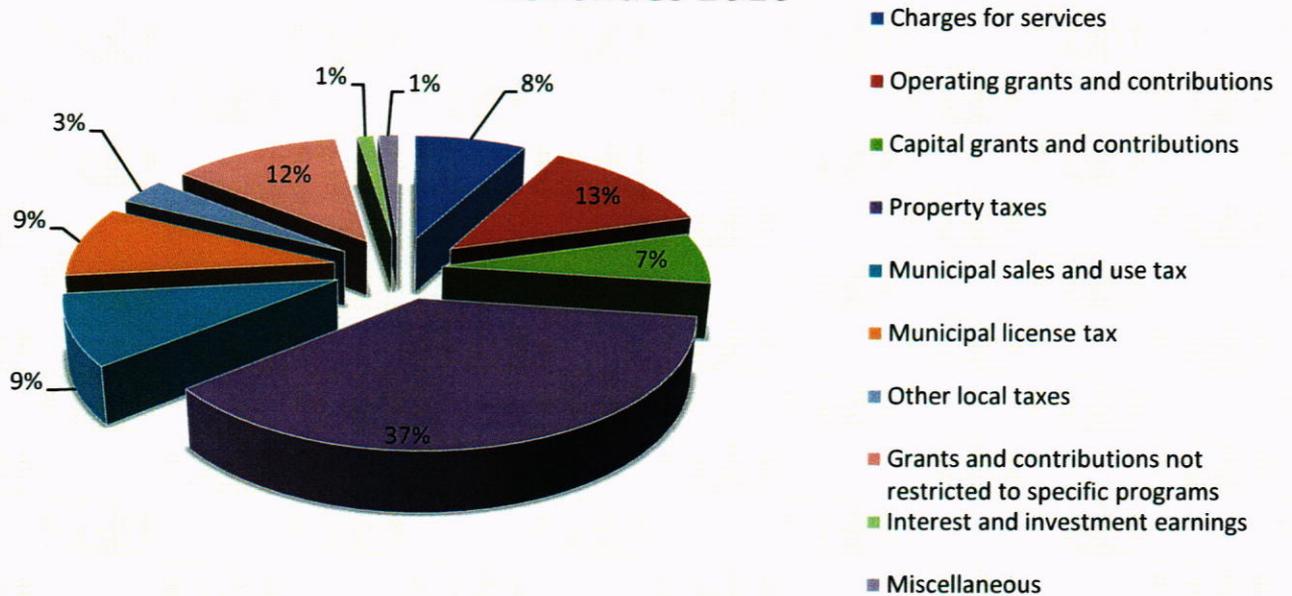
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RIO GRANDE**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

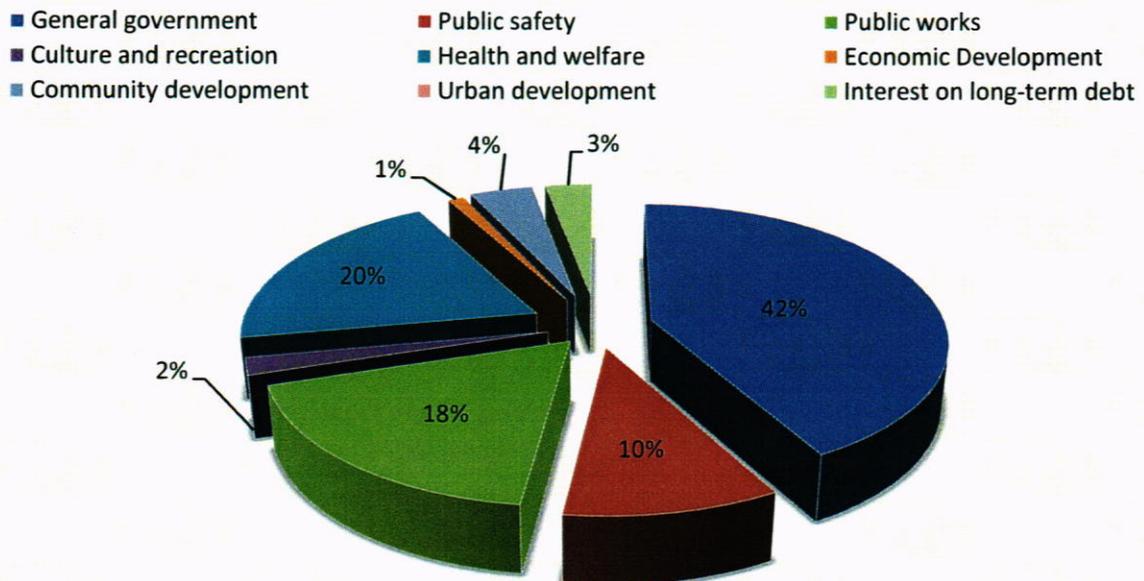
YEAR ENDED JUNE 30, 2010

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2010



Expenses 2010



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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 \$15,905,427, which represents an increase of \$2,698,102 when compared with the prior year, as restated. Out of the indicated balance, \$19,117,607 were reserved or committed for the following purposes: (1) \$477,140 to liquidate contracts and purchase orders corresponding to prior fiscal year; 2) \$4,574,485 for debt service payments; 3) \$13,527,788 to pay for capital projects; 4) \$115,262 for other purposes, and 5) \$422,932 for long-term advances.

As of June 30, 2010, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund deficit of \$3,212,180.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2009-2010, 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 excess of \$497,211 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, 2010, amounted to \$88,221,669 which upon deduction of accumulated depreciation in the amount of \$27,431,120 produced a net book value attributable to capital assets in the amount of \$60,790,549. 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, 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately twelve percent (12%) of net book value. Depreciation charges for the year totaled \$2,223,551.

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, 2010, the Municipality has \$17,000,496 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, 2010

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, 2010

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,753,049
Cash with fiscal agent	16,782,462
Accounts receivable:	
Property tax	686,875
Municipal sales and use tax	95,345
Intergovernmental	613,418
Other assets	4,973
Capital assets	
Land, improvements, and construction in progress	28,967,664
Other capital assets, net of depreciation	31,822,885
Total capital assets	60,790,549
Total assets	81,726,671
Liabilities	
Accounts payable and accrued liabilities	4,384,596
Due to other governmental entities	311,138
Deferred revenues:	
Municipal license tax	1,642,758
Federal grant revenues	242,658
Interest payable	343,027
Noncurrent liabilities:	
Due within one year	2,914,245
Due in more than one year	29,466,905
Total liabilities	39,305,327
Net Assets	
Invested in capital assets, net of related debt	43,294,549
Restricted for:	
Capital projects	13,527,788
Debt service	4,231,458
Other purposes	115,262
Unrestricted (deficit)	(18,747,713)
Total net assets	\$ 42,421,344

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, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and Contributions	Grants and Contributions	Governmental Activities
General government	\$ 8,419,573	\$ 9,666	\$ 111,655	\$ -	\$ (8,298,252)
Public safety	5,535,896	17,585	128,750		(5,389,561)
Public works	6,162,234	15,226	102,726	77,131	(5,967,151)
Health and welfare	7,138,164	2,243,609	2,832,033		(2,062,522)
Culture and recreation	939,354		273,510	110,137	(555,707)
Economic development	291,992		229,343		(62,649)
Community development	377,201			1,714,380	1,337,179
Urban development	19,100				(19,100)
Interest on long-term debt	893,536				(893,536)
Total governmental activities	<u>\$ 29,777,050</u>	<u>\$ 2,286,086</u>	<u>\$ 3,678,017</u>	<u>\$ 1,901,648</u>	<u>(21,911,299)</u>
General revenues:					
					10,798,040
Property taxes					2,638,386
Municipal license tax					2,635,013
Municipal sales and use tax					994,043
Other local taxes					3,435,598
Grants and contributions not restricted to specific programs					333,124
Interest and investment earnings					416,058
Miscellaneous					<u>21,250,262</u>
Total general revenues					21,250,262
Change in net assets					(661,037)
Net assets - beginning, as restated					43,082,381
Net assets - ending					<u>\$ 42,421,344</u>

Commonwealth of Puerto Rico
Municipality of Río Grande
Balance Sheet
Governmental Funds
June 30, 2010

	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	\$ -	\$ 288,161	\$ 1,812,838	\$ -	\$ 652,050	\$ 2,753,049
Cash with fiscal agent	3,911		12,278,611	4,499,074	866	16,782,462
Accounts receivable:						
Property tax	611,464			75,411		686,875
Municipal sales and use tax			95,345			95,345
Intergovernmental	13,298	561,370			38,750	613,418
Advances from other funds	422,932					422,932
Due from other funds	345,763		577,682			923,445
Other assets	4,973					4,973
Total assets	\$ 1,402,341	\$ 849,531	\$ 14,764,476	\$ 4,574,485	\$ 691,666	\$ 22,282,499
Liabilities and Fund Balances						
Liabilities :						
Accounts payable and accrued liabilities	\$ 1,591,162	\$ 50,221	\$ 978,499	\$ -	\$ 214,259	\$ 2,834,141
Due to other governmental entities	72,949		238,189			311,138
Advances to other funds		325,591			97,341	422,932
Due to other funds	403,669	231,061	20,000		268,715	923,445
Deferred revenues:						
Municipal license tax	1,642,758					1,642,758
Federal grant revenues		242,658				242,658
Total liabilities	3,710,538	849,531	1,236,688	-	580,315	6,377,072
Fund balances:						
Reserved for:						
Encumbrances	477,140					477,140
Capital projects			13,527,788			13,527,788
Debt service fund				4,574,485		4,574,485
Other purposes	3,911				111,351	115,262
Long-term advances	422,932					422,932
Unreserved:						
Undesignated	(3,212,180)					(3,212,180)
Total fund balances	(2,308,197)	-	13,527,788	4,574,485	111,351	15,905,427
Total liabilities and fund balances	\$ 1,402,341	\$ 849,531	\$ 14,764,476	\$ 4,574,485	\$ 691,666	

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, 2010

	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	\$ 8,246,479	\$ -	\$ -	\$ 2,551,561	\$ -	\$ 10,798,040
Municipal license taxes	2,638,386					2,638,386
Municipal sales and use tax			2,099,183	535,830		2,635,013
Licenses, permits and other local taxes	1,003,709					1,003,709
Charges for services					2,243,608	2,243,608
Intergovernmental	3,435,598		1,689,379		472,662	5,597,639
Fines and forfeitures	17,585					17,585
Rent of property	15,226					15,226
Interest	333,124					333,124
Federal grants		2,912,949			504,676	3,417,625
Miscellaneous	341,856	3,575			70,627	416,058
Total revenues	16,031,963	2,916,524	3,788,562	3,087,391	3,291,573	29,116,013
Expenditures						
Current:						
General government	8,567,035		297,816			8,864,851
Public safety	2,708,093	118,650	2,661,379		88,660	5,576,782
Public works	4,734,832	97,640	1,583,565			6,416,037
Health and welfare	1,815,974	735,612	1,549,243		3,063,350	7,164,179
Culture and recreation	839,021	73,597	759,950		167,995	1,840,563
Economic development		168,525			121,529	290,054
Community development		1,714,380				1,714,380
Urban development			19,100			19,100
Debt service:						
Principal				1,032,000		1,032,000
Interest				814,965		814,965
Total expenditures	18,664,955	2,908,404	6,871,053	1,846,965	3,441,534	33,732,911
Excess (deficiency) of revenues over (under) expenditures	(2,632,992)	8,120	(3,082,491)	1,240,426	(149,961)	(4,616,898)
Other financing sources (uses)						
Transfers in			420,392	71,134	4,500	496,026
Transfers out	(85,634)	(8,120)		(400,000)	(2,272)	(496,026)
Long-term debt issued			7,315,000			7,315,000
Total other financing sources (uses)	(85,634)	(8,120)	7,735,392	(328,866)	2,228	7,315,000
Net change in fund balances	(2,718,626)	-	4,652,901	911,560	(147,733)	2,698,102
Fund balance, beginning as restated	410,429	-	8,874,887	3,662,925	259,084	13,207,325
Fund balance, ending	\$ (2,308,197)	\$ -	\$ 13,527,788	\$ 4,574,485	\$ 111,351	\$ 15,905,427

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Commonwealth of Puerto Rico
Municipality of Rio Grande
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
For the Year Ended June 30, 2010

Total Fund Balances - Governmental Funds \$ 15,905,427

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in Governmental Activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets	\$ 28,967,664	
Depreciable Capital Assets, net of depreciation	<u>31,822,885</u>	
Total Capital Assets		60,790,549

Account payables related to Construction in Progress are not due and payable in the current period and, therefore, are not reported in the funds. (1,550,455)

Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds (343,027)

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

General bonds and notes payable	26,895,000	
LIMS repayment plan	140,342	
Property taxes debt	894,423	
Retirement System Administration	459,676	
P.R. Acueduct and Sewer Authority (PRASA)	208,905	
Compensated absences	2,607,304	
Claims and judgment	<u>1,175,500</u>	
Total Long-Term Liabilities		<u>(32,381,150)</u>

Total Net Assets of Governmental Activities **\$ 42,421,344**

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, 2010

Net Change in Fund Balances - Total Governmental Funds	\$	2,698,102
Amounts reported for governmental activities in the Statement of Activities are different because:		
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.		5,429,481
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.		(2,223,551)
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.		(794)
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.		(78,571)
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.		(6,283,000)
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.		282,784
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.		(164,367)
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 Governmental Funds. The following amount represent the change in long-term claims and judgments from prior year.		341,402
Long-term P.R. Aqueduct and Sewer Authority Repayment Plan 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, federal cost disallowances are not reported as expenditures in Government Funds. This is the amount paid in the current year.		(208,905)
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.		86,935
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.		(377,196)
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		(163,357)
Change in Net Assets of Governmental Activities	\$	(661,037)

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

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

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, 2010

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 governmental 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, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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

9. Net Assets-In the government-wide statements, net assets are segregated into three categories:

- a. Invested in capital assets, net of related debt: Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
- b. Restricted net assets: Represent net assets that are subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- c. Unrestricted net assets: Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face of the statement of net assets.

10. 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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

11. *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.

12. *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, 2010 amounted to \$ 219,859. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$ 250,519 for workers compensation insurance covering all municipal employees.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2010.

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, 2010, (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, 2010, 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, 2010, 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 \$250,000 per depositor.

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, 2010. Therefore, the Municipality's management has concluded that at June 30, 2010 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2010.

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 \$288,161 in the special revenue fund – federal grants, and \$1,812,838 in the capital projects fund – state and local grants were fully collateralized at June 30, 2010. In the other governmental funds there were deposits with commercial banks of \$652,050 that were fully collateralized.

The deposits at GDB of \$3,911 in the general fund, the \$12,278,611 in the capital projects fund – state and local grants, the \$4,499,074 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.

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, 2010, 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)	\$ 611,464
Total	<u>\$ 611,464</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

3. RECEIVABLES (CONTINUED)

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)	\$ 75,411
Total	<u>\$ 75,411</u>

- 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 \$ 95,345 in capital projects fund - state & local grants represents filed municipal sales and use tax returns that were uncollected as of June 30, 2010, net of allowance for uncollectible accounts.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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	\$ 13,298
Total	\$ 13,298

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	\$ 41,375
Community Development Block Grant – State’s Program	55,415
Child Care and Development Block Grant	206,065
Community Services Block Grant	55,555
Even Start – State Educational Agencies	158,890
Others	<u>44,070</u>
Total	\$ 561,370

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 – Department of Labor and Human Resources	\$ 38,750
Total	\$ 38,750

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2010, and interfund transfers during the fiscal year ended at June 30, 2010, 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	\$ 556,652
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed	192,043
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	403,669
Capital Projects Fund - State and Local Grants	Other Governmental Funds	Payroll and related accruals paid and not reimbursed	<u>174,013</u>
Total			<u>\$ 1,346,377</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	\$ 10,000
General Fund	Debt Service Fund	Debt retirement	71,134
General Fund	Other Governmental Funds	Transfer of funds for special funds outlays	4,500
Special Revenue Fund- Federal Funds	Capital Projects Fund - State and Local Grants	Transfer of funds for capital outlays	8,120
Debt Service Fund	Capital Projects Fund - State and Local Grants	Transfer of funds for capital outlays	400,000
Other Governmental Funds	Capital Projects Fund - State and Local Grants	Transfer of funds for capital outlays	<u>2,272</u>
Total			<u>\$ 496,026</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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 2010, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>
Capital asset, not being depreciated:				
Land	\$ 16,573,384	\$ -	\$ -	\$ 16,573,384
Construction in progress	<u>12,203,523</u>	<u>4,171,384</u>	<u>(3,980,627)</u>	<u>12,394,280</u>
Total capital assets not being depreciated	<u>28,776,907</u>	<u>4,171,384</u>	<u>(3,980,627)</u>	<u>28,967,664</u>
Capital assets, being depreciated:				
Buildings and building improvements	18,859,235	4,188,953		23,048,188
Infrastructure	13,663,708	346,728		14,010,436
Infrastructure improvements	12,844,253	404,314		13,248,567
Equipment	2,913,254	103,764	(13,905)	3,003,113
Furnishing	95,674	23,116	(1,407)	117,383
Works of art	4,345	280		4,625
Computers	100,331	44,901	(144)	145,088
Vehicles	<u>5,549,937</u>	<u>126,668</u>	<u>-</u>	<u>5,676,605</u>
Total capital assets being depreciated	<u>54,030,737</u>	<u>5,238,724</u>	<u>(15,456)</u>	<u>59,254,005</u>
Less accumulated depreciation for:				
Buildings and building improvements	(6,701,581)	(631,915)		(7,333,496)
Infrastructure	(6,044,442)	(449,127)		(6,493,569)
Infrastructure improvements	(5,607,954)	(427,780)		(6,035,734)
Equipment	(1,971,509)	(318,478)	13,801	(2,276,186)
Furnishing	(36,606)	(18,408)	717	(54,297)
Works of art	(1,192)	(463)		(1,655)
Computers	(71,344)	(30,410)	144	(101,610)
Vehicles	<u>(4,787,603)</u>	<u>(346,970)</u>	<u>-</u>	<u>(5,134,573)</u>
Total accumulated depreciation	<u>(25,222,231)</u>	<u>(2,223,551)</u>	<u>14,662</u>	<u>(27,431,120)</u>
Total capital assets being depreciated, net	<u>28,808,506</u>	<u>3,015,173</u>	<u>(794)</u>	<u>31,822,885</u>
Governmental activities capital assets, net	<u>\$ 57,585,413</u>	<u>\$ 7,186,557</u>	<u>\$ (3,981,421)</u>	<u>\$60,790,549</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

5. CAPITAL ASSETS (CONTINUED)

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

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 191,970
Public safety	125,873
Public works	1,212,591
Health and welfare	75,005
Culture and recreation	509,509
Economic development	1,938
Education	551
Community development	<u>106,114</u>
Total depreciation expense-governmental activities	<u>\$ 2,223,551</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010 are summarized as follows:

<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>
Accounts payable	\$ 151,974	\$ 50,221	\$ 978,499	\$ -	\$ 214,259	\$ 1,394,953
Bank overdraft	988,352					988,352
Accrued liabilities	<u>450,836</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>450,836</u>
Total	<u>\$ 1,591,162</u>	<u>\$ 50,221</u>	<u>\$ 978,499</u>	<u>\$ -</u>	<u>\$ 214,259</u>	<u>\$ 2,834,141</u>

7. DUE TO OTHER GOVERNMENTAL ENTITIES

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

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Telephone Company	\$ 64,376
Puerto Rico Electric Power Authority	634
General Services Administration	1,175
Department of Labor and Human Resources	<u>6,764</u>
Total	<u>\$ 72,949</u>

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

<u>Governmental Entity</u>	<u>Amount</u>
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, 2010

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, 2010, the outstanding debt balance was \$ 140,342. This amount will be presented in the government wide statement of net assets.

8. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of \$ 1,642,758 in the general fund relates to municipal license tax collected in fiscal year 2009-10 that will be earned in fiscal year 2010-11.

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	\$ 18,122
Housing Opportunities for Persons with AIDS	49,933
Special Program for Aging – Title III, Part B	47,440
Child Care Block Grant-ARRA	31,913
Urban Development Action Grant	14,368
Child and Adult Care Food Program	58,472
Others	<u>22,410</u>
Total	<u>\$ 242,658</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, 2010

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 collections exceeded advances by \$520,603.

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, 2010

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 2010, the related unpaid property tax advances presented in the Statement of Net Assets amounted to \$ 894,423.

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, 2010

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, 2010, 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, 2010, 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	\$ 15,067,000	\$6,995,000	\$ (592,000)	\$ 21,470,000	\$ 797,000
Notes Payable	5,545,000	320,000	(440,000)	5,425,000	390,000
Property Tax - Department of Treasury	242,128	-	(242,128)	-	-
CRIM - Law No. 146	935,079	-	(40,656)	894,423	40,656
Compensated absences	2,442,937	378,976	(214,609)	2,607,304	150,000
Claims and Judgments	1,516,902	-	(341,402)	1,175,500	1,175,500
P.R. Aqueduct and Sewer Authority repayment plan	-	208,905	-	208,905	208,905
Retirement System Administration repayment plan	296,319	163,357	-	459,676	60,000
LIMS repayment plan	227,277	-	(86,935)	140,342	92,184
Total	<u>\$ 26,272,642</u>	<u>\$8,066,238</u>	<u>\$(1,957,730)</u>	<u>\$32,381,150</u>	<u>\$2,914,245</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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, 2010 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, 2010</u>
1995-Series	1/1/2019	\$ 1,187,000	4.50%	\$ 656,000
1996-Series	7/1/2020	1,045,000	4.70% to 6.63%	695,000
1996-Series	7/1/2020	1,715,000	4.70% to 6.63%	1,155,000
1998-Series	7/1/2012	355,000	4.87% to 6.71%	110,000
2002-Series	7/1/2026	5,105,000	5.00% to 8.00%	4,365,000
2002-Series	7/1/2016	1,400,000	2.70% to 8.00%	855,000
2003-Series	7/1/2027	4,746,000	5.00% to 7.25%	4,059,000
2003-Series	7/1/2027	1,175,000	5.00% to 6.50%	975,000
2008-Series	7/1/2023	985,000	3.93% to 7.50%	910,000
2009-Series	7/1/2033	700,000	4.75% to 7.50%	695,000
2010-Series	7/1/2030	6,995,000	4.75% to 7.50%	<u>6,995,000</u>
Total general obligation bonds				<u>\$ 21,470,000</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>
2011	\$ 797,000	\$ 919,369
2012	854,000	1,440,528
2013	921,000	1,382,306
2014	954,000	1,320,489
2015	1,018,000	1,254,773
2016-2020	5,747,000	5,139,288
2021-2025	5,928,000	3,031,881
2026-2030	5,041,000	860,925
2031-2035	<u>210,000</u>	<u>33,375</u>
Total	<u>\$ 21,470,000</u>	<u>\$ 15,382,934</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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, 2010</u>
2006-Series	7/1/2012	\$ 1,555,000	6.25% to 7.25%	\$ 755,000
2009-Series	7/1/2028	4,570,000	4.70% to 7.50%	4,350,000
2010-Series	7/1/2017	320,000	6.00% to 7.50%	<u>320,000</u>
Total notes payable				<u>\$ 5,425,000</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>
2011	\$ 390,000	\$ 354,807
2012	420,000	365,763
2013	450,000	334,162
2014	195,000	310,688
2015	215,000	295,875
2016-2020	1,130,000	1,233,750
2021-2025	1,455,000	781,875
2026-2030	<u>1,170,000</u>	<u>180,000</u>
Total	<u>\$ 5,425,000</u>	<u>\$ 3,856,920</u>

- 4. Compensated absences-** The government-wide statement of net assets includes \$1,319,080 of accrued sick leave benefits, and approximately \$1,384,120 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 2010.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

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, 2010 amounted to \$ 619,062. 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, 2010

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, 2010, 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 \$ 1,175,500 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, 2010

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, 2010:

- a. GASB Statement No.54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for periods beginning after June 15, 2010.
- b. 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, 2010

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	\$ 410,429	\$ -	\$ 8,840,096	\$ 3,662,925	\$ 291,434	\$ 13,204,884
To correct prior year intergovernmental receivable					(32,350)	(32,350)
To adjust prior year accounts payable	-	-	<u>34,791</u>	-	-	<u>34,791</u>
Fund balance, beginning as restated	<u>\$ 410,429</u>	<u>\$ -</u>	<u>\$ 8,874,887</u>	<u>\$ 3,662,925</u>	<u>\$ 259,084</u>	<u>\$ 13,207,325</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	\$ 43,079,940
To correct prior year intergovernmental receivable	(32,350)
To adjust prior year accounts payable	<u>34,791</u>
Net assets, beginning as restated	<u>\$ 43,082,381</u>

17. SUBSEQUENT EVENTS

On October 28, 2010, the Municipal Legislature approved the issuance of a general obligation note payable, for the amount of \$1,920,000, for the payment of a judicial settlement, and various governmental agencies debts. Repayment of the bond is scheduled from July 2011 through July, 2017.

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

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

YEAR ENDED JUNE 30, 2010

	<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	\$ 7,284,940	\$ 7,284,940	\$ 8,034,343	\$ 749,403
Municipal license tax	2,910,000	2,910,000	3,027,737	117,737
Licenses, permits and other local taxes	3,420,000	3,420,000	3,966,077	546,077
Intergovernmental	3,293,955	3,590,625	2,767,023	(823,602)
Rent of property	45,000	45,000	59,043	14,043
Fines and forfeitures	15,000	15,000	22,586	7,586
Interest	400,000	400,000	359,346	(40,654)
Miscellaneous	<u>429,250</u>	<u>429,250</u>	<u>341,856</u>	<u>(87,394)</u>
Total revenues before carryover	17,798,145	18,094,815	18,578,011	483,196
Budgeted carryover (1)	-	325,000	325,000	-
Total revenues and budget carryover	<u>17,798,145</u>	<u>18,419,815</u>	<u>18,903,011</u>	<u>483,196</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	7,602,822	7,960,992	7,961,436	(444)
Public safety	2,896,108	2,889,453	2,702,131	187,322
Public works	4,574,090	4,839,445	4,765,451	73,994
Health and welfare	1,814,641	1,807,391	2,066,477	(259,086)
Culture and recreation	815,159	827,209	824,671	2,538
Operating transfer to other fund	<u>95,325</u>	<u>95,325</u>	<u>85,634</u>	<u>9,691</u>
Total expenditures, encumbrances and other financing uses	<u>17,798,145</u>	<u>18,419,815</u>	<u>18,405,800</u>	<u>14,015</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 497,211</u>	<u>\$ 497,211</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$18,903,011
Differences-budget to USGAAP:				
Budget carryover				(325,000)
USGAAP adjustment to revenues				<u>(2,460,414)</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 16,117,597</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 18,405,800
Differences-budget to USGAAP:				
Prior year encumbrances recorded as current year expenditures for USGAAP basis				736,295
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(477,140)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 18,664,955</u>

(1) Represents fund balances carried over from prior years

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

**NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2010**

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, 2010 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2010.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

<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:			
Pass-through the Commonwealth of Puerto Rico-Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 94,116
Total U.S. Department of Agriculture			94,116
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Community Development Block Grants/Entitlement Grants	14.218		1,330,470
Direct Program:			
ARRA-Community Development Block Grants (CDBG-R) (Recovery Act funded)	14.253		383,910
Direct Program:			
Homelessness Prevention and Rapid Re-Housing (Recovery Act funded)	14.257		62,670
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		529,992
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	66,560
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan:			
Housing Opportunities for Persons with Aids	14.241	Not Available	78,990
Total U.S. Department of Housing and Urban Development			2,452,592

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2010

<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		73,597
Total U.S. Department of the Interior			73,597
U.S DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico Department of Justice:			
Community Oriented Policing Services	16.710	Not Available	46,765
ARRA-Edward Byrne Justice Assistance Grant (EBJAG) (recovery Act funded)	16.803	Not Available	68,370
Total U.S. Department of Justice			115,135
U.S DEPARTMENT OF ENERGY			
Energy Efficiency and Conservation Block Grant (Recovery Act funded)	81.128	Not Available	121,760
Total U.S. Department of Energy			121,760
U.S. DEPARTMENT OF EDUCATION			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Even Start – State Educational Agencies	84.213	Not Available	167,046
Total U.S. Department of Education			167,046

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
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	148,092
Pass-through the Commonwealth of Puerto Rico – Family Department:			
Community Services Block Grant	93.569	Not Available	22,772
Child Care and Development Block Grant	93.575	Not Available	149,801
ARRA-Child Care and Development Block Grant (Recovery Act funded)	93.713	Not Available	8,549
Total U.S. Department of Health and Human Services			329,214
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	23,310
Pass-through the Commonwealth of Puerto Rico Emergency Management Agency:			
Homeland Security Grant Program	97.067	Not Available	50,280
Total U.S. Department of Homeland Security			73,590
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,427,050

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, 2010

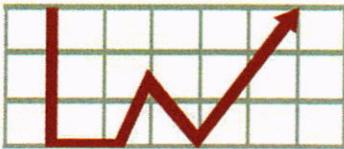
1. BASIS OF PRESENTATION:

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:

<u>Description</u>	<u>Special Revenue Fund Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 2,897,058	\$ 529,992	\$ 3,427,050
Non federal programs expenditures	<u>11,346</u>	<u>2,911,542</u>	<u>2,922,888</u>
Total expenditures in the general purpose financial Statements	<u>\$ 2,908,404</u>	<u>\$ 3,441,534</u>	<u>\$ 6,349,938</u>



López-Vega, CPA, PSC

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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, 2010, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated November 11, 2010, 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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)

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 March 17, 2011.

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
November 11, 2010

Stamp No. 2575464 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



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- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITOR'S 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, 2010. 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, 2010.

INDEPENDENT AUDITOR'S 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

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

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

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 17, 2011.

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.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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


LÓPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 17, 2011

Stamp No. 2575465 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, 2010

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
14.253	ARRA-Community Development Block Grant – Entitlement Grant (Recovery Act funded)
14.871	Section 8 Housing Choice Voucher

Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
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Auditee qualified as low-risk auditee?	Yes	No X
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF RÍO GRANDE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

Section II – Financial Statements Findings

During our audit, we did not detect deficiencies, significant deficiencies, material weaknesses, or 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, 2010

Section III – Financial Statements Findings

During our audit, we did not detect deficiencies, significant deficiencies, material weaknesses, or 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 RIO GRANDE

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2010

Prior year audit findings for the Single Audit of the **Municipality of Río Grande** were cleared in the report issued in the year ended June 30, 2008. No prior year audit findings remained un-cleared as of the date of our report.